KOOKMIN BANK
Form 20-F
June 28, 2004
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As filed with the Securities and Exchange Commission on June 28, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2003

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission file number 1-15258

Kookmin Bank

(Exact name of Registrant as specified in its charter)

Kookmin Bank

(Translation of Registrant s name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul 100-703, Korea

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one share of Common Stock	**New York Stock Exchange Inc.**
Common Stock, par value (Won)5,000 per share	**New York Stock Exchange Inc.***

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

306,362,493 shares of Common Stock, par value (Won)5,000 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x Yes ¨ No

Indicate by check mark which financial statement item the registrant has elected to follow.

¨ Item 17 x Item 18

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

¨ Yes ¨ No

* Not for trading, but only in connection with the registration of the American Depositary Shares.

Kookmin Bank has distributed printed copies of this Form 20-F to holders of its New York Stock Exchange-listed American Depository Shares in lieu of distributing copies of its annual report in compliance with Rule 203.01 of the New York Stock Exchange listing manual.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

As of and for the years ended December 31, 1999, 2000, 2001, 2002 and 2003, we have prepared financial information in accordance with United States generally accepted accounting principles, or U.S. GAAP. Unless indicated otherwise, the financial information in this document as of and for the years ended December 31, 1999, 2000, 2001, 2002 and 2003 has been prepared in accordance with U.S. GAAP.

We were formed through a merger between the former Kookmin Bank and H&CB, which merged into a new corporation named Kookmin Bank effective November 1, 2001. Accordingly, financial information in this document as of and for the year ended December 31, 2001 reflects the impact of the merger. Under U.S. GAAP, the former Kookmin Bank is deemed the accounting acquiror of H&CB in the merger, and we have accounted for the acquisition using the purchase method of accounting.

In this annual report:

- references to we, us or Kookmin Bank are to Kookmin Bank and, unless the context otherwise requires, its subsidiaries and, for periods of time prior to the merger with H&CB, the former Kookmin Bank;
- references to Korea or the Republic are to the Republic of Korea;
- references to the government are to the government of the Republic of Korea;
- references to Won or (Won) are to the currency of Korea; and
- references to U.S. dollars, US dollars, $ or US$ are to United States dollars.

Discrepancies between totals and the sums of the amounts contained in any table may be as a result of rounding.

For your convenience, this document contains translations of Won amounts into U.S. dollars at the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 31, 2003, which was (Won)1,192.0 = US$1.00.

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FORWARD-LOOKING STATEMENTS

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company s future prospects and make informed investment decisions. This annual report contains forward-looking statements.

Words and phrases such as will, aim, will likely result, will continue, contemplate, seek to, future, objective, goal, should, w anticipate, estimate, expect, project, intend, plan, believe and words and terms of similar substance used in connection with any discus future operating or financial performance identify forward-looking statements. All forward-looking statements are management s present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. In addition to the risks related to our business discussed under Risk Factors, other factors could cause actual results to differ materially from those described in the forwarding-looking statements. These factors include, but are not limited to:

- our ability to successfully implement our strategy;
- future levels of non-performing loans;
- our growth and expansion;
- the adequacy of allowance for credit and investment losses;
- technological changes;
- interest rates;
- investment income;
- availability of funding and liquidity;
- cash flow projections;
- our exposure to market risks; and
- adverse market and regulatory conditions.

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on our income or results of operations could materially differ from those that have been estimated.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this annual report could include, but are not limited to:

- general economic and political conditions in Korea or other countries that have an impact on our business activities or investments;
- the monetary and interest rate policies of Korea;
- inflation or deflation;
- foreign exchange rates;
- prices and yields of equity and debt securities;
- the performance of the financial markets in Korea and internationally;
- changes in domestic and foreign laws, regulations and taxes;
- changes in competition and the pricing environments in Korea; and
- regional or general changes in asset valuations.

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For further discussion of the factors that could cause actual results to differ, see the discussion under Item 3D. Risk Factors contained in this annual report. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this annual report. Except as required by law, we are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGERS AND ADVISERS

Not applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

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Item 3. KEY INFORMATION

Item 3A. ***Selected Financial Data***

The selected consolidated financial and operating data set forth below as of and for the years ended December 31, 1999, 2000, 2001, 2002 and 2003 have been derived from our audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP and audited by Samil PricewaterhouseCoopers, independent registered public accounting firm.

You should read the following data together with the more detailed information contained in Item 5. Operating and Financial Review and Prospects and our consolidated financial statements included elsewhere in this annual report. Historical results do not necessarily predict future results.

Consolidated income statement data

	Year ended December 31,					
	1999	2000	2001 (1)	2002	2003	2003 (2)
	(in billions of Won, except per common share data)					(in millions of US$, except per common share data)
Interest and dividend income	(Won) 6,342	(Won) 7,263	(Won) 8,895	(Won) 13,450	(Won) 13,755	$ 11,539
Interest expense	4,307	4,505	5,317	6,734	6,462	5,420
Net interest income	2,035	2,758	3,578	6,716	7,293	6,119
Provision for loan losses, guarantees and acceptances	964	67	1,261	3,886	7,167	6,013
Non-interest income	1,370	927	1,765	3,098	2,914	2,444
Non-interest expense	1,499	1,614	2,354	4,387	4,406	3,696
Income tax expense (benefit)	381	746	647	597	(367)	(308)
Minority interest	6	81	84	(211)	(52)	(44)
Net (loss) income from discontinued operations after income taxes	(74)	(249)	8	97		
Cumulative effect of accounting change, net of tax			(13)			
Net income (loss)	(Won) 481	(Won) 928	(Won) 992	(Won) 1,252	(Won) (947)	$ (794)
Net income (loss) per common share (3):						
Net income (loss)-basic	(Won) 2,982	(Won) 4,931	(Won) 4,700	(Won) 3,939	(Won) (2,905)	$ (2.44)
Net income (loss)-diluted (4)	2,506	4,243	4,256	3,831	(2,905)	(2.44)
	161,188	188,107	211,037	317,787	326,000	326,000

Weighted average common shares outstanding-basic (in thousands of common shares)						
Weighted average common shares outstanding-diluted (in thousands of common shares)	192,765	219,797	234,541	328,107	326,000	326,000
Cash dividends paid per common share (3)(5)(6)	(Won) 338	(Won) 84	(Won) 844	(Won) 100	(Won) 1,000	$ 0.84

(1) Data reflect the impact of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001, which was accounted for using the purchase method of accounting.

(2) Won amounts are expressed in U.S. dollars at the rate of (Won)1,192.0 to US$1.00, the noon buying rate in effect on December 31, 2003 as quoted by the Federal Reserve Bank of New York in the United States.

(3) As discussed in Notes 1 and 30 to our consolidated financial statements, for the purpose of calculating earnings per share, all historical per share and share amounts have been restated to reflect (a) the exchange of former Kookmin Bank shares, at a ratio of 1.688346:1, in connection with our merger with H&CB, (b) a 6% stock dividend approved on March 22, 2002.

(4) Diluted earnings per share gives effect to the potential dilution that could occur if convertible securities, options or other contracts to issue common stock were converted into or exercised for common stock for the relevant periods. Effective from 2003, we had one category of potentially dilutive common shares, which was shares issuable on exercise of stock options granted to directors and employees. In prior periods, we had two additional categories of potentially dilutive common shares, which were shares issuable on conversion of convertible debentures and shares issuable on conversion of preferred shares.

(5) U.S. GAAP requires that dividends be recorded in the period in which they are declared rather than the period to which they relate unless these are the same.

(6) On December 15, 2001, our board of directors passed a resolution recommending a 6% stock dividend and a cash dividend of (Won)100 per common share (before dividend tax), representing 2% of the par value of each share, for the fiscal year ended December 31, 2001. This resolution was approved and ratified by our stockholders on March 22, 2002. For this dividend, 17,979,954 common shares were issued and distributed to stockholders who were registered in our stockholder registry on December 31, 2001. No stock dividends were declared for the fiscal years ended December 31, 1999, 2000, 2002 or 2003.

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Consolidated balance sheet data

	As of December 31,					
	1999	2000	2001 (1)	2002	2003	2003 (2)
			(in billions of Won)			(in millions of US$)
Assets						
Cash and cash equivalents	(Won) 2,161	(Won) 1,701	(Won) 3,041	(Won) 3,328	(Won) 3,170	$ 2,660
Restricted cash	706	1,540	4,373	1,580	2,770	2,324
Interest-bearing deposits in other banks	629	1,587	592	564	563	472
Call loans and securities purchased under resale agreements	377	2,491	2,012	229	3,959	3,321
Trading assets	3,636	3,104	6,874	6,368	3,517	2,951
Investments (3)	16,293	17,702	26,231	24,223	22,427	18,815
Loans (net of allowance for loan losses of (Won)2,623 billion in 1999, (Won)2,394 billion in 2000, (Won)3,508 billion in 2001, (Won)5,195 billion in 2002 and (Won)5,772 billion in 2003)	42,351	57,041	117,452	140,756	140,213	117,628
Due from customers on acceptances	995	1,916	1,887	881	605	507
Premises and equipment, net	1,110	1,126	1,846	2,121	1,909	1,601
Accrued interest and dividends receivable	1,090	1,107	1,160	1,116	995	835
Security deposits	687	690	1,244	1,337	1,331	1,117
Goodwill and other intangible assets	211	582	743	631	818	686
Other assets	1,108	204	697	965	1,702	1,428
Total assets	(Won) 71,354	(Won) 90,791	(Won) 168,152	(Won) 184,099	(Won) 183,979	$ 154,345
Liabilities and Stockholders Equity						
Deposits:						
Interest bearing	(Won) 40,079	(Won) 54,201	(Won) 110,895	(Won) 118,654	(Won) 128,144	$ 107,503
Non-interest bearing	2,659	1,982	4,141	3,745	3,460	2,903
Call money	1,333	581	2,701	306	225	189
Trading liabilities	298	718	287	625	762	640
Acceptances outstanding	995	1,916	1,887	881	605	507
Other borrowed funds	4,816	6,369	10,812	15,856	12,895	10,818
Accrued interest payable	2,105	2,311	4,617	4,463	3,938	3,304
Secured borrowings	423	1,468	5,501	7,864	8,207	6,885
Long-term debt	14,212	14,797	16,626	20,165	16,607	13,932
Other liabilities	1,853	2,482	2,742	2,634	2,552	2,141
Total liabilities	(Won) 68,773	(Won) 86,825	(Won) 160,209	(Won) 175,193	(Won) 177,395	$ 148,822
Minority interest	21	221	308	71	16	13
Common stock	1,498	1,498	1,588	1,641	1,682	1,411
Additional paid-in capital	1,141	1,242	4,960	5,146	5,393	4,525

Other	(79)	1,005	1,087	2,048	(507)	(426)
Stockholders equity	2,560	3,745	7,635	8,835	6,568	5,510
Total liabilities, minority interest and stockholders equity	(Won) 71,354	(Won) 90,791	(Won) 168,152	(Won) 184,099	(Won) 183,979	$ 154,345

(1) Data reflect the impact of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001, which was accounted for using the purchase method of accounting.

(2) Won amounts are expressed in U.S. dollars at the rate of (Won)1,192.0 to US$1.00, the noon buying rate in effect on December 31, 2003 as quoted by the Federal Reserve Bank of New York in the United States.

(3) Consists of available-for-sale securities, held-to-maturity securities, venture capital securities and other securities.

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Profitability ratios and other data

	Year ended December 31,				
	(percentages)				
	1999	2000	2001	2002	2003
Net income as a percentage of:					
Average total assets (1)	0.68%	1.15%	0.92%	0.71%	(0.49)%
Average stockholders equity (1)	23.19	29.42	20.59	13.50	(7.17)
Dividend payout ratio (2)	9.83	1.61	15.06	1.80	
Net interest spread (3)	2.68	3.17	3.17	3.71	3.67
Net interest margin (4)	3.18	3.68	3.57	4.02	4.00
Efficiency ratio (5)	44.02	44.80	44.06	44.70	43.17
Cost-to-average assets ratio (6)	2.13	2.01	2.17	2.49	2.28
Won loans (gross) as a percentage of Won deposits	97.64	101.53	104.25	115.68	108.30
Total loans (gross) as a percentage of total deposits	105.17	105.72	105.09	119.14	110.83

(1) Average balances are based on (a) daily balances for our primary banking operations and (b) quarterly balances for subsidiaries.
(2) Represents the ratio of total dividends declared on common stock as a percentage of net income.
(3) Represents the difference between the yield on average interest earning assets and cost of average interest bearing liabilities.
(4) Represents the ratio of net interest income to average interest earning assets.
(5) Represents the ratio of non-interest expense to the sum of net interest income and non-interest income.
(6) Represents the ratio of non-interest expense to average total assets.

Capital ratios

	As of December 31,				
	(percentages)				
	1999	2000	2001	2002 (2)	2003(2)
Total capital adequacy ratio (1)	11.38%	11.18%	10.23%	10.41%	10.00%
Tier I capital adequacy ratio (1)	7.26	6.82	7.09	6.62	6.22
Tier II capital adequacy ratio (1)	4.12	4.36	3.18	3.79	3.78
Average stockholders equity as a percentage of average total assets	2.95	3.92	4.45	5.26	6.79

(1) Our capital adequacy ratios are computed in accordance with the guidelines issued by the Financial Supervisory Commission. The computation is based on our consolidated financial statements prepared in accordance with Korean GAAP, which may differ in certain significant respects from U.S. GAAP. See Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy and Allowances.
(2) The method of calculating our capital and capital adequacy ratios changed from 2002. Had we calculated these ratios based on the calculation method in use as of December 31, 2001, our Tier 1 capital ratio would have been 6.66% and 6.28%, our Tier 2 capital ratio would have been 3.86% and 4.11% and our capital adequacy ratio would have been 10.47% and 10.09% as of December 31, 2002 and 2003, respectively.

Credit portfolio ratios and other data

	As of December 31,				
	(in billions of Won, except percentages)				
	1999	2000	2001	2002	2003
Total loans	(Won) 44,945	(Won) 59,397	(Won) 120,894	(Won) 145,832	(Won) 145,858
Total non-performing loans (1)	2,134	1,762	3,376	3,912	4,116
Other impaired loans not included in non-performing loans	4,399	4,145	3,513	2,680	3,072
Total of non-performing loans and other impaired loans	6,533	5,907	6,889	6,592	7,188
Total allowance for loan losses	2,623	2,394	3,508	5,195	5,772
Non-performing loans as a percentage of total loans	4.74%	2.97%	2.79%	2.68%	2.82%
Non-performing loans as a percentage of total assets	2.99	1.94	2.01	2.13	2.24
Total of non-performing loans and other impaired loans as a percentage of total loans	14.54	9.94	5.70	4.52	4.93
Allowance for loan losses as a percentage of total loans	5.84	4.03	2.90	3.56	3.96

(1) Non-performing loans are defined as those loans, including corporate, retail and other loans, which are past due more than 90 days.

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Selected Statistical Information

Average Balance Sheets and Related Interest

The following table shows our average balances and interest rates for the past three years.

	Year ended December 31,								
	2001 (1)(2)			2002 (1)			2003		
	Average Balance (3)	Interest Income (4)(5)(6)	Average Yield	Average Balance (3)	Interest Income (4)(5)(6)	Average Yield	Average Balance (3)	Interest Income (4)(5)(6)	Average Yield
	(in billions of Won, except percentages)								
Assets									
Cash and interest-earning deposits in other banks	(Won) 949	(Won) 59	6.22%	(Won) 1,734	(Won) 61	3.52%	(Won) 1,179	(Won) 14	1.19%
Call loans and securities purchased under resale agreements	2,093	101	4.83	811	34	4.19	2,317	61	2.63
Trading securities	3,490	172	4.93	5,953	112	1.88	2,933	105	3.58
Investment securities (7)	21,152	1,540	7.28	25,090	1,419	5.66	29,029	1,513	5.21
Loans:									
Commercial and industrial	32,390	2,664	8.22	38,733	2,744	7.08	44,134	2,855	6.47
Construction loans	2,503	224	8.95	5,336	384	7.20	6,433	490	7.62
Other commercial	1,339	116	8.66	1,380	80	5.80	1,106	59	5.33
Mortgage and home equity	12,988	1,145	8.82	41,422	3,287	7.94	48,535	3,415	7.04
Other consumer	12,258	1,194	9.74	25,519	2,130	8.35	29,077	2,374	8.16
Credit cards (6)	9,938	1,615	16.25	19,840	3,166	15.96	16,498	2,846	17.25
Foreign commercial and industrial	1,120	65	5.80	1,255	33	2.63	1,079	23	2.13
	72,536	7,023	9.68	133,485	11,824	8.86	146,862	12,062	8.21
Total average interest earning assets	100,220	8,895	8.88	167,073	13,450	8.05	182,320	13,755	7.54

Cash and due from banks	2,804			4,697			5,461		
Foreign exchange spot contracts and derivatives	787			863			2,385		
Premises and equipment	1,118			2,033			2,207		
Due from customers on acceptance	1,202			322			701		
Loan loss allowance	(2,250)			(4,127)			(5,287)		
Assets of discontinued operations	909			679					
Other non-interest earning assets	3,529			4,837			5,488		
Total average non-interest earning assets	8,099			9,304			10,955		
Total average assets	(Won) 108,319	(Won) 8,895	8.21%	(Won) 176,377	(Won) 13,450	7.63%	(Won) 193,275	(Won) 13,755	7.12%

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	Year ended December 31,								
	2001 (1)(2)			2002 (1)			2003		
	Average Balance (3)	Interest Expense	Average Yield	Average Balance (3)	Interest Expense	Average Yield	Average Balance (3)	Interest Expense	Average Yield
	(in billions of Won, except percentages)								
Liabilities									
Deposits									
Demand deposits	(Won) 499	(Won) 8	1.60%	(Won) 598	(Won) 4	0.67%	(Won) 667	(Won) 2	0.30%
Certificates of deposit	2,023	123	6.08	2,120	102	4.81	4,068	181	4.45
Other time deposits	33,231	2,397	7.21	66,454	3,260	4.91	67,733	2,964	4.38
Savings deposits	23,665	446	1.88	35,206	413	1.17	38,368	348	0.91
Mutual installment deposits	7,238	563	7.78	12,235	764	6.24	11,946	642	5.37
Deposits (total)	66,656	3,537	5.31	116,613	4,543	3.90	122,782	4,137	3.37
Call money	960	39	4.06	1,803	71	3.94	1,802	65	3.61
Borrowings from the Bank of Korea	1,152	38	3.30	1,337	33	2.47	1,020	25	2.45
Other short-term borrowings	7,717	520	6.74	9,077	488	5.38	13,250	573	4.32
Secured borrowings	3,701	297	8.02	5,888	325	5.52	8,150	476	5.84
Long-term debt	12,934	886	6.85	20,260	1,274	6.29	19,678	1,186	6.03
Total average interest bearing liabilities	93,120	5,317	5.71%	154,978	6,734	4.35	166,682	6,462	3.88
Demand deposits	1,871			2,934			2,961		
Foreign exchange spot contracts and derivatives	751			752			2,384		
Acceptances to customers	1,202			536			883		
Liabilities of discontinued operations	1,197			795					
Other non-interest bearing liabilities	5,360			7,110			7,161		

Total average non-interest bearing liabilities	10,381			12,127			13,389		
Total average liabilities	103,501	5,317	5.14%	167,105	6,734	4.03	180,071	6,462	3.59
Stockholders equity	4,818			9,272			13,204		
Total liabilities and stockholders equity	(Won) 108,319	(Won) 5,317	4.91%	(Won) 176,377	(Won) 6,734	3.82%	(Won) 193,275	(Won) 6,462	3.34%

(1) Average balances and interest income and expenses for all periods have been restated to exclude the assets, liabilities and results of disposed subsidiaries that qualify for discontinued operations. See Note 4 to our consolidated financial statements.

(2) Data reflect the impact of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001, which was accounted for using the purchase method of accounting.

(3) Average balances are based on (a) daily balances for our primary banking operations and (b) quarterly balances for subsidiaries.

(4) Interest income figures include dividends on securities and cash interest received on non-accruing loans. See Item 4B. Business Overview Assets and Liabilities Loan Portfolio Non-Accrual Loans and Past Due Accruing Loans.

(5) We do not invest in any tax-exempt securities.

(6) Interest income from credit cards includes principally cash advance fees of (Won)1,271 billion, (Won)1,719 billion and (Won)1,517 billion and interest on credit card loans of (Won)273 billion, (Won)830 billion and (Won)591 billion for the years ended December 31, 2001, 2002 and 2003, respectively.

(7) Information related to investment securities classified as available-for-sale has been computed using amortized cost, and therefore does not give effect to changes in fair value that are reflected as a component of stockholders equity.

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The following table presents our net interest spread, net interest margin, and asset liability ratio for the past three years:

	Year ended December 31,		
	2001	2002	2003
	(percentages)		
Net interest spread (1)	3.17%	3.71%	3.67%
Net interest margin (2)	3.57	4.02	4.00
Average asset liability ratio (3)	107.62	107.80	109.38

(1) The difference between the average rate of interest earned on interest earning assets and the average rate of interest paid on interest bearing liabilities.
(2) The ratio of net interest income to average interest earning assets.
(3) The ratio of average interest earning assets to average interest bearing liabilities.

Analysis of Changes in Net Interest Income Volume and Rate Analysis

The following table provides an analysis of changes in interest income, interest expense and net interest income between changes in volume and changes in rates for 2002 compared to 2001 and 2003 compared to 2002. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities in proportion to absolute volume and rate change. The variance caused by the change in both volume and rate has been allocated in proportion to absolute volume and rate change.

	Fiscal 2002 vs. Fiscal 2001 Increase/(decrease) due to change in			Fiscal 2003 vs. Fiscal 2002 Increase/(decrease) due to change in		
	Volume	Rate	Total	Volume	Rate	Total
	(in billions of Won)					
Interest earning assets						
Cash and interest earning deposits in other banks	(Won) 35	(Won) (33)	(Won) 2	(Won) (15)	(Won) (32)	(Won) (47)
Call loans and securities purchased under resale agreements	(55)	(12)	(67)	44	(17)	27
Trading securities	81	(141)	(60)	(75)	68	(7)
Investment securities	258	(379)	(121)	211	(117)	94
Loans						
Commercial and industrial	479	(399)	80	362	(251)	111
Construction loans	211	(51)	160	83	23	106
Other commercial	3	(39)	(36)	(15)	(6)	(21)
Mortgage and home equity	2,267	(125)	2,142	526	(398)	128
Other consumer	1,128	(192)	936	291	(47)	244
Credit cards	1,581	(30)	1,551	(562)	242	(320)
Foreign commercial and industrial	7	(39)	(32)	(4)	(6)	(10)

Total interest income	5,995	(1,440)	4,555	846	(541)	305
Interest bearing liabilities						
Deposits						
Demand deposits	1	(5)	(4)	0	(2)	(2)
Certificates of deposit	6	(27)	(21)	87	(8)	79
Time deposits (other than certificates of deposit)	1,816	(953)	863	62	(358)	(296)
Savings deposits	171	(204)	(33)	35	(100)	(65)
Mutual installment deposits	329	(128)	201	(18)	(104)	(122)
Call money	33	(1)	32	0	(6)	(6)
Borrowings from the Bank of Korea	6	(11)	(5)	(8)	0	(8)
Other short-term borrowings	83	(115)	(32)	194	(109)	85
Secured borrowings	140	(112)	28	131	20	151
Long-term debt	466	(77)	389	(36)	(52)	(88)
Total interest expense	3,051	(1,633)	1,418	447	(719)	(272)
Total net interest income	(Won) 2,944	(Won) 193	(Won) 3,137	(Won) 399	(Won) 178	(Won) 577

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Exchange Rates

The tables below set forth, for the periods and dates indicated, information concerning the noon buying rate for Won, expressed in Won per one U.S. dollar. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, translations of Won amounts into U.S. dollars in this annual report were made at the noon buying rate in effect on December 31, 2003, which was (Won)1,192.0 to US$1.00. We do not intend to imply that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all. On June 24, 2004, the noon buying rate was **(Won)**1,156.0 = US$1.00.

	Won per U.S. dollar (noon buying rate)			
	Low	**High**	**Average (1)**	**Period-End**
1999	1,125.0	1,243.0	1,188.2	1,136.0
2000	1,105.5	1,267.0	1,140.0	1,267.0
2001	1,234.0	1,369.0	1,293.4	1,313.5
2002	1,160.6	1,332.0	1,242.0	1,186.3
2003	1,146.0	1,262.0	1,193.0	1,192.0
2004 (through June 24)	1,141.4	1,195.1	1,165.7	1,156.0
January 2004	1,172.0	1,195.1		
February	1,152.2	1,180.0		
March	1,146.7	1,181.0		
April	1,141.4	1,173.6		
May	1,165.0	1,191.0		
June (through June 24)	1,155.0	1,164.8		

Source: Federal Reserve Bank of New York.

(1) The average of the noon buying rates of the Federal Reserve Bank in effect on the last business day of each month during the relevant period (or portion thereof).

Item 3B. ***Capitalization and Indebtedness***

Not Applicable

Item 3C. ***Reasons For the Offer And Use Of Proceeds***

Not Applicable

Item 3D. ***Risk Factors***

Risks relating to our retail credit portfolio

We have been experiencing, and may continue to experience, increases in delinquencies in our retail loan portfolio, including, in particular, our credit card-related loans.

In recent years, consumer debt has increased rapidly in Korea. This has also resulted in increased delinquencies. As the leading retail bank in Korea, our portfolio of retail loans, in particular, mortgage and home equity loans, and the aggregate outstanding balance of our credit card accounts (particularly cash advances and credit card loans) have grown from (Won)16,219 billion and (Won)8,321 billion, respectively, as of December 31, 2000 to (Won)81,204 billion and (Won)15,322 billion, respectively, as of December 31, 2003, as a result of both the merger with H&CB effective November 1, 2001 and significant organic growth. As of December 31, 2003, our retail loans and credit card accounts represented 55.7% and 10.5% of our total lending, respectively. Within our consumer loan portfolio, the outstanding balance of other consumer loans, which unlike mortgage or home equity loans is often unsecured and therefore tends to carry a higher credit risk, has increased from (Won)8,151 billion, or

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33.2% of our total outstanding consumer loans, as of December 31, 2000 to (Won)28,727 billion, or 29.8% of our total outstanding consumer loans, as of December 31, 2003. The growth of our retail lending and credit card businesses offered higher margins than other lending activities and contributed significantly to the increase in our interest income and our profitability. However, after the third quarter of 2003, we were unable to sustain this growth due to increasing delinquencies, market saturation, competition and government regulation in the retail and credit card segments and other factors, and we may not be able to achieve such growth in the future, which may hurt our future performance and prospects.

The growth of our retail loan and credit card portfolios in recent years has been accompanied by increasing delinquencies, which has required us to increase our loan loss provisions and charge-offs and has adversely affected our financial condition and results of operations during and for the year ended December 31, 2003. Our non-performing retail loans (defined as those that are over 90 days past due) increased from (Won)166 billion as of December 31, 2000 to (Won)1,613 billion as of December 31, 2003, as a result of both the merger with H&CB and higher delinquencies. In our credit card segment, outstanding balances overdue by 30 days or more increased from (Won)227 billion as of December 31, 2000 to (Won)1,777 billion as of December 31, 2003. Our charge-offs, net of recoveries, increased from (Won)7 billion in 2000 to (Won)4,838 billion in 2003. Our delinquency ratio (which represents the ratio of amounts that are overdue by one day or more to total outstanding balances) with respect to our credit card portfolio was 13.7%, 7.8%, 20.6% and 21.6% as of December 31, 2000, 2001, 2002 and 2003, respectively. Credit card delinquencies may increase further in the future as a result of, among other things, adverse economic developments in Korea and the inability of Korean consumers to manage increased household debt, as reflected in the continuing practice among some credit card holders of obtaining multiple credit cards and using cash advances from one card to make payments due on others.

In addition, in line with industry practice, we have restructured a large portion of delinquent credit card account balances (defined as balances overdue for one day or more) as loans and also replaced a portion of our delinquent credit card account balances with cash advances that are rolled over from month to month. We have discontinued the practice of providing substituted cash advances from January 2004. As of December 31, 2003, these loans and substituted cash advances outstanding amounted to (Won)1,774 billion and (Won)164 billion, respectively. Because these loans and cash advances are not treated as being delinquent at the time of conversion or for a period of time thereafter, our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding loans. Including all restructured loans and substituted cash advances, outstanding balances overdue by one day or more accounted for 27.4% of our credit card receivables (including credit card loans) as of December 31, 2003.

Our increased exposure to consumer debt means that we are more exposed to changes in economic conditions affecting Korean consumers. Accordingly, economic difficulties in Korea that have a significant adverse effect on Korean consumers could result in reduced growth and further deterioration in the credit quality of our retail loan and credit card portfolios. For example, a rise in unemployment or an increase in interest rates in Korea, which have been at historically low levels in recent years, could have an adverse impact on the ability of retail borrowers and credit card holders to make payments and increase the likelihood of potential defaults, while reducing demand for retail loans and credit cards. In addition, there is a risk that our credit card risk evaluation procedures may not identify significant credit quality deterioration on a timely basis.

Our credit card operations have recently recorded losses, and we expect that these losses will continue, which could hurt our financial condition and results of operations.

In September 2003, we merged Kookmin Credit Card, our credit card subsidiary, into us in response to its liquidity problems stemming from the deteriorating asset quality of its credit card portfolio. The acquisition of minority interest was accounted for under the purchase method of accounting, and we stepped up the assets and liabilities acquired to their fair values at the date of acquisition. The excess of fair value of purchase consideration over the fair value of net assets acquired was recognized as goodwill. Our credit card operations have continued to record significant additional net losses after the merger through the fourth quarter of 2003.

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This has been primarily due to a continuing rise in delinquency levels and substantial charge-offs and loan loss provisions. Despite our efforts to improve our credit card asset quality and capital position, we expect that these losses will continue through the first half of 2004, which may adversely affect our overall financial condition and results of operations.

Our merger with our credit card subsidiary may result in labor unrest and in customer loss.

Following our merger with Kookmin Credit Card, Kookmin Credit Card s business operations were combined with that of BC Card. The combined credit card business group has operational autonomy with respect to the credit card business and was organized based on the operational platform of Kookmin Credit Card. Future decisions with respect to integration of these operations may adversely affect our credit card business. For example, in May 2003, the employees of Kookmin Credit Card began a strike demanding that the contemplated merger not go forward. We reached an agreement with the Kookmin Credit Card employees and they returned to work. In addition, unifying our two credit card brands could result in the loss of overlapping customers who prefer the availability of multiple cards.

Risk relating to our small- and medium-sized enterprise loan portfolio

We have significant exposure to small- and medium-sized enterprises, and any financial difficulties experienced by these customers may result in a deterioration of our asset quality and have an adverse impact on us.

One of our core businesses is lending to small- and medium-sized enterprises (as defined under Item 4B. Business Overview Corporate Banking Small- and Medium-sized Enterprise Banking). We estimate, based on our internal classifications made for Korean GAAP purposes, that our loans to small- and medium-sized enterprises increased from (Won)30,498 billion as of December 31, 2001 to (Won)41,540 billion as of December 31, 2003. During the period, we estimate that non-performing loans to small- and medium-sized enterprises also increased from (Won)1,108 billion to (Won)1,416 billion, representing a decrease in the non-performing loan ratio from 3.63% as of December 31, 2001 to 3.41% as of December 31, 2003. According to data compiled by the Financial Supervisory Service, the delinquency ratio for Won-currency loans by Korean banks to small- and medium-sized enterprises was 2.1% as of December 31, 2003. The delinquency ratio for loans to small- and medium-sized enterprise is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal payments are overdue by one day or more or interest payments are over due by 14 days or more (unless prior interest payments on a loan were made late on more than three occasions, in which case the loan is considered delinquent if interest payments are overdue by one day or more) to (2) the aggregate outstanding balance of such loans. Our delinquency ratio for such Won-currency loans on a Korean GAAP basis decreased from 3.3% as of December 31, 2001 to 3.2% as of December 31, 2003 but may rise in 2004 compared to 2002 and 2003. Accordingly, we may be required to take measures to decrease our exposures to these customers. For example, in order to stem rising delinquencies, we have decided to review loan applications more intensively with respect to small- and medium-sized enterprises in certain industry sectors, such as construction, hotels, restaurants and real estate.

Financial difficulties experienced by small- and medium-sized enterprises as a result of, among other things, continued weakness in the Korean economy, as well as aggressive marketing and intense competition among banks to lend to this segment, have led and will continue to lead to a deterioration in the asset quality of our loans to this segment. Any such deterioration would result in increased charge-offs and higher provisioning and reduced interest and fee income from this segment, which would have a material adverse impact on our financial condition and results of operations. In addition, many small- and medium-sized enterprises have close business relationships with chaebols, primarily as suppliers. Any difficulties encountered by those chaebols would likely hurt the liquidity and financial condition of related small- and medium-sized enterprises, including those to which we have exposure, also resulting in an impairment of their ability to repay loans.

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An integral part of our strategy relating to our small- and medium-enterprise lending business is to maintain the growth of our loans to small- and medium-sized enterprises by focusing on small office/home office customers, or SOHOs. Many of these SOHOs represent sole proprietorships, individual business interests or very small corporations and are usually dependent on a limited number of suppliers or customers. SOHOs constitute a relatively new customer base within the small- and medium-sized enterprise segment. However, SOHOs tend to be affected to a greater extent than larger corporate borrowers by fluctuations in the Korean economy. In addition, SOHOs often maintain less sophisticated financial records than other corporate borrowers. Although we use our internally developed credit rating systems to rate potential borrowers, we do not have a substantial history of experience with SOHOs and are less able to judge the level of risk inherent in these customers. Accordingly, although we intend to manage our exposure to these borrowers closely in order to prevent any deterioration in the asset quality of our loans to this segment, we may not be able to do so.

Risks relating to our strategy

Although increasing our fee income is an important part of our strategy, we may not be able to do so.

We have historically relied on interest income as our primary revenue source. To date, except for fees related to our credit card business, fees related to the National Housing Fund and trust management fees and currency transfer fees (including foreign exchange-related commissions), we have not generated significant fee income. While we intend to develop new sources of fee income as part of our business strategy, including through our investment banking and bancassurance businesses, our ability to do so will be affected by the extent to which our customers generally accept the concept of fee-based services. The willingness of customers to pay fees in return for value-added services has not been broadly tested in the Korean market and their reluctance to do so will adversely affect the implementation of this aspect of our strategy. In addition, one element of our fee-based strategy relates to our corporate customers. There is a risk that our reduced focus on large corporate lending will hamper our ability to attract fee business from those customers, in particular our ability to compete with other banks and financial institutions offering fee-based services as a part of a broader lending relationship.

We may suffer customer attrition due to our strategy of avoiding price competition.

We have been pursuing, and intend to continue to pursue, a strategy of maintaining or enhancing our margins where possible and avoid, to the extent possible, entering into price competition. In order to execute this strategy we will need to maintain relatively low interest rates on our deposit products while charging relatively higher rates on loans. If other banks and financial institutions adopt a strategy of expanding market share through interest rate competition, we may suffer customer attrition due to rate sensitivity, particularly in our core retail segment. In addition, we may in the future decide to compete to a greater extent based on interest rates, which could lead to a decrease in our net interest margins. Any future decline in our customer base or our net interest margins as a result of our future competition strategy could have an adverse effect on our results of operations and financial condition.

Risks relating to competition

Competition in the Korean banking industry will intensify, and we may experience declining market share as a result.

We compete principally with other financial institutions in Korea, including Korean banks and branches of foreign banks operating in Korea. In the retail and small- and medium-sized enterprise lending business, which has been our traditional core business, competition has increased significantly and is expected to increase further. Most Korean banks have been targeting retail customers and small- and medium-sized enterprises as they scale back their exposure to large corporate borrowers, contributing to some extent to the asset quality deterioration in consumer and small- and medium-sized enterprise loans, and they are engaged in aggressive marketing campaigns and making significant investments in these segments. In particular, we have been experiencing increased competition in the credit card segment with the market entry of additional credit card issuers, including member companies of chaebols, foreign credit card companies and credit card subsidiaries of Korean banks. The profitability of our retail and credit card operations may further decline as a result of growing market saturation in the retail lending and credit card segments, increased interest rate competition, pressure to lower the fee rates applicable to our credit cards (particularly merchant fee rates) and higher marketing expenses. Intense and increasing competition has made and continues to make it more difficult for us to secure retail, credit card and small- and medium-sized customers with the credit quality and on credit terms necessary to achieve our business objectives in a commercially acceptable manner.

In addition, we believe regulatory reforms and the general modernization of banking practices in Korea will lead to increased competition among financial institutions in Korea. We also believe that foreign financial institutions, either by themselves or in partnership with existing Korean financial institutions, will seek to compete with us in providing financial and related services. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the last few years, including the recent acquisition of a major Korean bank by a leading global financial institution. We expect that these merger and acquisition activities will continue. Some of the banks resulting from these mergers and acquisitions may, by virtue of the increased size, provide significantly greater competition. Our results of operations and financial condition may suffer as a result of increasing competition in the Korean financial industry.

We now face full competition with respect to our mortgage business, which may result in a further decrease of our market share and adversely affect our margins.

Until 1997, by law, H&CB was the only financial institution in Korea that could offer a full range of mortgage products. Among other things, it had the exclusive ability to offer mortgages with terms longer than ten years, provide housing-related deposit accounts and offer preferential rights to subscribe for newly built apartments.

In 1997, the laws giving H&CB exclusive rights to offer these mortgage-related products began to be repealed. By March 2000, all commercial banks in Korea could offer a full range of mortgage products, and H&CB began to lose market share. The increased competition in the mortgage sector has also contributed to lower margins from our mortgage lending activities. While we continue to hold the largest share of this market, we may not be able to maintain our market share or margins with respect to mortgage lending in the face of increased competition. Any decrease in such market share or margins may adversely affect our financial condition and results of operations.

Risks relating to our large corporate loan portfolio

We have exposure to the largest Korean commercial conglomerates, known as chaebols, and, as a result, recent and any future financial difficulties of chaebols may have an adverse impact on us.

Of our 20 largest corporate exposures (including loans, debt and equity securities, guarantees and acceptances and other exposures) as of December 31, 2003, 12 were to companies that were members of the 29 largest chaebols in Korea. As of that date, the total amount of our exposures to the 29 largest chaebols was (Won)6,024 billion, or 3.5% of our total exposures. If the credit quality of our exposures to chaebols declines, we could require substantial additional loan loss provisions, which would hurt our results of operations and financial condition.

In particular, we have significant exposure to several former Hyundai Group companies, former Daewoo Group companies and former and current SK Group companies, Ssangyong Group companies and LG Group companies, a number of which have been experiencing financial difficulties. For example:

As a result of their deteriorating financial condition, several former Hyundai Group companies, including Hynix Semiconductor, Hyundai Engineering and Construction, Hyundai Petrochemical and Hyundai Merchant Marine, have required assistance in recent years from their creditor financial institutions, in the form of additional loans, extensions of maturities of various outstanding payment obligations, debt-for-equity swap transactions, guarantees of overseas borrowings and injections of additional capital.

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In 1999, the principal creditor banks of the Daewoo Group companies began formal workout procedures with respect to 12 member companies of that group, including Daewoo Corporation, Daewoo Motors, Daewoo Electronics, Daewoo Heavy Industries, Daewoo Telecom and Ssangyong Motors. Many of these former Daewoo Group companies are currently subject to liquidation proceedings or have been liquidated or sold, are under workouts or reorganization proceedings, have been split up into more than one company or are looking for purchasers.

In March 2003, the principal creditor banks of SK Networks (formerly SK Global), a member company of the SK Group, commenced corporate restructuring procedures against SK Networks after the company announced that its financial statements understated its total debt by (Won)1.1 trillion and overstated its profits by (Won)1.5 trillion. These banks, including us, agreed to a temporary rollover of approximately (Won)6.6 trillion of SK Networks debt until December 31, 2007 and subsequently decided to put SK Networks into corporate restructuring. In October 2003, SK Networks foreign and domestic creditors agreed to a restructuring plan, which, among other things, allowed the foreign creditors to cash out their debts at a buyout rate of 43% of the face value of the outstanding debt owed to them. In November 2003, SK Networks underwent a capital reduction and sold approximately (Won)1 trillion of its assets as part of its restructuring plan, and SK Corporation approved a (Won)850 billion debt-for-equity swap. SK Networks is currently under the joint management of its domestic creditors in accordance with its restructuring plan.

Several Ssangyong Group companies have been experiencing significant financial difficulties and liquidity problems. In particular, the principal creditor banks of each of Ssangyong Cement Industrial and Ssangyong Corporation, including us, commenced corporate restructuring procedures against these companies in November 2000 and February 2002, respectively.

Although no workouts or reorganization proceedings have begun against any other significant LG Group companies, LG Card, one of Korea s largest credit card companies and formerly a member company of the LG Group, has been experiencing significant liquidity and asset quality problems. See We have exposure to a number of Korean credit card companies, and recent and future difficulties faced by those companies may have an adverse impact on us.

As a result of these various difficulties, we have increased our allowance for loan losses for our loans to these companies in recent years. With respect to some borrowers, we have already charged off or sold our previous outstanding exposures. The table below summarizes our exposures to these groups and their significant member companies:

	As of December 31, 2003				
	Outstanding Exposure (1)	% of Total Exposure	% of Exposure Classified as Impaired Loans	Allowance for Loan Losses, Guarantees and Acceptances	Allowance for Loan Losses, Guarantees and Acceptances as a % of Exposure
	(in billions of Won, except percentages)				
Former Hyundai Group (Total) (2)	(Won) 1,220	0.70%	2.78%	(Won) 43	3.52%
Hyundai Group (3)	223	0.13		16	7.17
Hyundai Engineering and Construction	139	0.08	23.74	7	5.04
Hyundai Heavy Industries	25	0.01	4.00		
Former Daewoo Group (Total) (4)	243	0.14	30.04	10	4.12
Daewoo International	34	0.02		1	2.94
Daewoo Electronics	24	0.01	70.83	1	4.17
Ssangyong Motors	89	0.05	62.92	7	7.87
SK Group (Total) (5)	210	0.12	42.38	7	3.33
SK Networks	99	0.06	89.90	2	2.02

Ssangyong Group (Total) (6)	60	0.03	100.00	12	20.00
Ssangyong Cement Industrial	60	0.03	100.00	12	20.00
LG Group (Total) (7)	1,093	0.63	44.56	143	13.08
LG Card(8)	543	0.31	89.69	127	23.39

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(1) Includes loans, debt and equity securities (including collateralized bond obligations) and guarantees and acceptances.
(2) Includes amounts from the former Hyundai Group, including Hyundai Engineering and Construction and Hyundai Heavy Industry.
(3) Recognized as the successor to the former Hyundai Group, which includes Hyundai Corporation and Hyundai Merchant Marine. Substantially all of the outstanding exposure of Hyundai Merchant Marine relates to ship financing to a special purpose company guaranteed by Hyundai Heavy Industries.
(4) Includes our exposures to former Daewoo Group companies.
(5) Includes SK Corporation, SK Networks, SK Telecom, SK Life Insurance, SK IMT, SK Shipping, SKC, SK Construction, SK Chemical and SK Securities.
(6) Includes Ssangyong Corporation, Ssangyong Cement Industrial, Ssangyong Construction and Namkwang Construction.
(7) Includes LG Electronics, LG International, LG Card and LG Chem.
(8) LG Card was disaffiliated from the LG Group in 2004.

We cannot assure you that the allowances we have established against these exposures will be sufficient to cover all future losses arising from these exposures. In addition, with respect to those companies that are in or in the future enter into workout or liquidation proceedings, we may not be able to make any recoveries against such companies. We may, therefore, experience future losses with respect to those loans.

We have exposure to a number of Korean credit card companies and recent and future difficulties faced by those companies may have an adverse impact on us.

As of December 31, 2003, we had aggregate exposures of (Won)849 billion to Korean credit card companies, which represented 0.5% of our total exposures. The Korean credit card industry has recently experienced increasing delinquency rates with respect to credit card receivables, and this increase in addition to declining demand for their securities have led to financial difficulties for many credit card companies.

The table below summarizes our exposures to Korean credit card companies as of December 31, 2003.

	Outstanding Exposure (1)	% of Total Exposure	% of Exposure Classified as Impaired Loans	Allowance for Loan Losses, Guarantees and Acceptances	Allowance for Loan Losses, Guarantees and Acceptances as a % of Exposure
	(in billions of Won, except percentages)				
Samsung Card	(Won) 303	0.17%		(Won) 2	0.66
LG Card	543	0.31	89.69%	127	23.39
BC Card	3				
Woori Card (2)					
Lotte Card					

(1) Includes loans, debt and equity securities (including collateralized bond obligations), guarantees and acceptances and other exposures.
(2) Woori Credit Card merged with Woori Bank on March 31, 2004.

In addition to the above exposures, we have exposures to credit card companies in our guaranteed trust accounts.

The continuing deterioration of the Korean credit card industry has resulted in our reviewing the credit quality of credit card companies more diligently and more frequently and reclassifying the loans and other credits provided to such companies as necessary. For example, LG Card, one of Korea s largest credit card companies, has been experiencing significant liquidity and asset quality problems. In November 2003, we and other creditor banks of LG Card agreed to provide a new (Won)2 trillion credit facility, secured by credit card receivables, to

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enable LG Card to resume cash operations. Our portion of this commitment was (Won)437 billion. Certain of LG Card s creditor banks also agreed to extend the maturity of a portion of LG Card s debt coming due in 2003 for one year, after the chairman of LG Group pledged his personal stake in LG Corp. (the group holding company), LG Investment & Securities and LG Card as collateral to offset future losses of LG Card.

After the failure to auction LG Card to a buyer in December 2003, the principal creditors of LG Card tentatively agreed to a rescue plan in January 2004 under which the Korea Development Bank would acquire a 26% ownership interest in LG Card and the other creditors would collectively acquire a 73% ownership interest following the completion of several debt-to-equity swaps contemplated for 2004. In addition, the creditors agreed to form a normalization steering committee for LG Card to oversee LG Card s business operations. An extraordinary shareholders meeting of LG Card was held in March 2004, and a new chief executive officer as well as directors nominated by the normalization steering committee were elected. In February 2004, the creditors exchanged indebtedness of (Won)953.9 billion for shares constituting 54.8% of the outstanding share capital of LG Card. The creditors also extended (Won)1.59 trillion of new loans to LG Card, which will subsequently be converted into equity. LG Group also funded an additional (Won)800 billion to LG Card in the first quarter of 2004 (in addition to a (Won)185 billion capital increase as a result of LG Card s issuance of new shares in December 2003). In May 2004, LG Card completed a capital write-down of 97.7% of its outstanding common stock and entered into a memorandum of understanding with the Korea Development Bank in connection with its restructuring plan. Following the capital write-down, the creditors plan to exchange a further (Won)2,545.5 billion of indebtedness into equity of LG Card. In addition, as LG Card required additional funding, the LG Group and the Korea Development Bank provided (Won)375 billion and (Won)125 billion, respectively, in the first quarter of 2004. In accordance with the plan, in February 2004, we swapped (Won)156 billion of LG Card debt for equity, extended (Won)206 billion of new loans to LG Card, which also has been or will be converted into equity, and purchased (Won)153 billion of commercial paper from LG Card, the proceeds of which LG Card used to repay loans provided by our trust accounts. We also expect to swap an additional (Won)362 billion of LG Card debt (including the new loans provided in February 2004) for equity in the near future. After all such debt-to-equity conversions, we expect to own a 14.2% equity interest in LG Card and to have (Won)489 billion of additional exposure to LG Card.

As of December 31, 2003, our total exposure to LG Card was (Won)543 billion, including (Won)487 billion of loans and (Won)56 billion of debt securities. As of such date, all of our loans to LG Card were classified as precautionary and as impaired loans for U.S. GAAP purposes. As a result of the deteriorating financial condition of LG Card, we recorded provisions of (Won)126 billion and recognized securities impairment losses of (Won)20 billion in 2003 in respect of our exposures to LG Card. In addition, as of December 31, 2003, we had approximately (Won)171 billion of exposure to LG Card in our guaranteed trust accounts, with respect to which we may experience further losses.

Prior to our conversions of LG Card debt to equity in 2004, we have taken or expect to take significant additional loan loss provisions and have recognized or expect to recognize significant additional losses in respect of such debt, which will have an adverse impact on our results of operations for 2004. Furthermore, the value of underlying collateral, our pro rata entitlement thereto and the allowances we have established or will establish against our exposures to LG Card and other Korean credit card companies may not be sufficient to cover all future losses arising from these exposures. Following the debt-to-equity conversions in respect of our exposures to LG Card, we may experience further losses if the market value of the LG Card equity securities we own falls below their recorded book value. In addition, in the case of credit card companies that are in or in the future enter into workout, restructuring, reorganization or liquidation proceedings, our recoveries from those companies may be limited. We may, therefore, experience future losses with respect to these exposures.

In addition, our investment portfolio includes beneficiary certificates representing interests in investment trusts whose assets include securities issued by credit card companies. Accordingly, to the extent that the value of securities issued by credit card companies declines as a result of their financial difficulties or otherwise, we may experience losses on our investment securities.

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We have exposure to companies that are currently or may in the future be put in restructuring, and we may suffer losses as a result of additional loan loss provisions required and/or the adoption of restructuring plans with which we do not agree.

As of December 31, 2003, our loans and guarantees to companies that were in workout, corporate restructuring, composition or corporate reorganization, including companies in the former Daewoo Group, former Hyundai Group and the Ssangyong Group, amounted to (Won)1,338 billion or 0.9% of our total loans and guarantees, of which (Won)459 billion or 34.3% was classified as substandard or below and all of which was classified as impaired. As of the same date, our allowances for losses on these loans and guarantees amounted to (Won)295 billion, or 22.0% of these loans and guarantees. These allowances may not be sufficient to cover all future losses arising from our exposure to these companies. Furthermore, in the event that any of our borrowers become subject to corporate restructuring procedures, we may be forced to restructure our credits pursuant to restructuring plans approved by other creditor financial institutions holding 75% or more of the total outstanding debt (as well as 75% or more of the total outstanding secured debt) of the borrower, or to dispose of our credits to other creditors on unfavorable terms.

Our current allowances for losses on loans and guarantees to construction companies may not be sufficient to cover all future related losses.

We have established allowances for losses on loans and guarantees to construction companies that we consider to have a greater likelihood of becoming non-performing. As of December 31, 2003, we had loans and guarantees outstanding to construction companies in the amount of (Won)7,425 billion, or 5.0% of our total loans and guarantees, of which (Won)406 billion or 5.5% was classified as substandard or below. As of the same date, our allowance for losses on these loans and guarantees amounted to (Won)315 billion, or 77.6% of the amount classified as substandard or below, and 4.2% of the total. Most of our exposure to construction companies consists of loans to small- and medium-sized enterprises. These allowances may not be sufficient to cover all future losses arising from our exposure to construction companies.

A large portion of our credit exposure is concentrated in a relatively small number of large corporate borrowers, which increases the risk of our corporate credit portfolio.

As of December 31, 2003, our loans and guarantees to our 20 largest borrowers totaled (Won)3,826 billion and accounted for 2.6% of our total loans and guarantees. As of that date, our single largest corporate credit exposure was to LG Card, to which we had outstanding credit exposures (substantially all of which was in the form of loans) of (Won)487 billion, representing 0.3% of our total loans and guarantees. Any further deterioration in the financial condition of our large corporate borrowers may require us to take substantial additional provisions and may have a material adverse impact on our results of operations and financial condition.

Other risks relating to our business

The Financial Supervisory Service is conducting an audit review of our audited annual financial statements prepared under Korean GAAP, which may result in changes to or a restatement of such financial statements as well as the financial information prepared under Korean GAAP contained in this annual report.

During the second quarter of 2004, the Financial Supervisory Service, which is our principal regulator in Korea, conducted a periodic inspection of our bank, which it generally performs once every two years. Following the conclusion of this periodic inspection, the Financial Supervisory Service notified us in June 2004 that it has decided to conduct an audit review with respect to our audited annual financial statements prepared under Korean GAAP, which we have publicly released. Depending on the results of this audit review, which has not yet been completed, the Financial Supervisory Service may require us to make changes to or restate our audited annual Korean GAAP financial statements and may also subject us to regulatory sanctions.

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If we are required to make changes to or restate our audited annual Korean GAAP financial statements, we may, depending on the nature of the changes or restatement, be required to make changes to or restate the financial information prepared under Korean GAAP contained in this annual report. Furthermore, if any such changes or restatement results in a material negative adjustment to our previously reported results of operations or financial condition under Korean GAAP for 2003 or any other period, the market price and liquidity of our common stock and ADSs may suffer.

We are generally subject to Korean corporate governance and disclosure standards, which may differ from those in other countries.

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies which may differ in some respects from standards applicable in other countries, including the United States. As a reporting company registered with the Securities and Exchange Commission and listed on the New York Stock Exchange, we are, and in the future will be, subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002. However, foreign private issuers, including us, are exempt from certain corporate governance requirements under the Sarbanes-Oxley Act or under the rules of the New York Stock Exchange. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information could result in corporate governance practices or disclosures that are perceived as less than satisfactory by investors in certain countries.

A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio.

A substantial portion of our loans is secured by real estate, the values of which have fluctuated significantly in recent years. Due to, among other things, intense competition among banks and significantly increasing mortgage loans and other real estate-secured loans in recent years, our loan-to-value ratio, which is a measure of the amount of a secured loan to the assessed value of the collateral securing the loan, has increased. Although it is our general policy to lend up to 50% of the appraised value of collateral (except in areas of high speculation designated by the government where we are required to limit our lending to 40% of the appraised value of collateral) and to periodically re-appraise our collateral, downturns in the real estate markets in Korea from time to time have resulted in declines in the value of the collateral securing some loans to levels below their outstanding principal balance. Future declines in real estate prices, including as a result of measures adopted by the Korean government in 2003 to stabilize the real estate market, would reduce the value of the collateral securing our mortgage and home equity loans. If collateral values decline in the future, they may not be sufficient to cover uncollectable amounts in respect of our secured loans. Any declines in the value of the real estate or other collateral securing our loans, or our inability to obtain additional collateral in the event of such declines, could result in a deterioration in our asset quality and may require us to take additional loan loss provisions.

In Korea, foreclosure on collateral generally requires a written petition to a court. An application, when made, may be subject to delays and administrative requirements that may result in a decrease in the value realized with respect to such collateral. We cannot guarantee that we will be able to realize the full value on our collateral as a result of, among other factors, delays in foreclosure proceedings and defects in the perfection of our security interest in collateral. Our failure to recover the expected value of collateral could expose us to losses.

The secondary market for corporate bonds in Korea is not fully developed, and, as a result, we may not be able to realize the full marked-to-market value of debt securities we hold at the time of any sale of such securities.

As of December 31, 2003, we held debt securities issued by Korean companies and financial institutions (other than those issued by government-owned or -controlled enterprises or financial institutions, which include the Korea Electric Power Corporation, the Bank of Korea, the Korea Development Bank and the Industrial Bank

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of Korea) with a total book value of (Won)4,669 billion in our trading and investment securities portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates, which may be significant in light of the current low interest environment, or a deterioration in the financial and economic condition of any particular issuer or of Korea in general. Any of these factors individually or a combination of these factors would require us to write down the fair value of these debt securities, resulting in impairment losses. Because the secondary market for corporate bonds in Korea is not fully developed, the market value of many of these securities as reflected on our balance sheet is determined by references to suggested prices posted by Korean rating agencies or the Korea Securities Dealers Association. These valuations, however, may differ significantly from the actual value that we could realize in the event we elect to sell these securities. As a result, we may not be able to realize the full marked-to-market value at the time of any such sale of these securities and thus may incur losses.

We may be required to make transfers from our general banking operations to cover shortfalls in our guaranteed trust accounts, which could have an adverse effect on our results of operations.

We manage a number of monetary trust accounts. Under Korean law, trust account assets of a bank are required to be segregated from the assets of that bank s general banking operations. Those assets are not available to satisfy the claims of a bank s depositors or other creditors of its general banking operations. For some of the trusts we manage, we have guaranteed the principal amount of the investor s investment and, in certain cases, we have also guaranteed a fixed rate of interest. In January 1999, new legislation prevented commercial banks in Korea from offering new trust accounts for which they guaranteed both the principal amount of the investment and a fixed rate of return. In addition, as a result of recent government announcements discouraging banks from providing trust accounts that provide a principal guarantee, we are phasing out such accounts. However, we will continue to provide guarantees with respect to existing accounts, which contain these guarantee provisions.

If, at any time, the income from our guaranteed trust accounts is not sufficient to pay any guaranteed amount, we will have to cover the shortfall first from the special reserves maintained in these trust accounts, then from our fees from the relevant trust accounts and finally from funds transferred from our general banking operations. As of December 31, 2003, we had (Won)3,262 billion in trust account assets for which we provided guarantees of both the principal and interest or of the principal alone. Substantially all of these guarantees were principal-only guarantees. Transfers from general banking operations to cover deficiencies in guaranteed trust accounts amounted to (Won)31 billion in 2001. In 2002 and 2003, there were no such transfers. We may be required to make additional transfers from our general banking operations to cover shortfalls in our guaranteed trust accounts in the future. Such transfers may adversely impact our results of operations.

Our Internet banking services are subject to security concerns relating to the commercial use of the Internet.

We provide Internet banking services to our retail and corporate customers, which require sensitive customer information, including passwords and account information, to be transferred over a secure connection on the Internet. However, connections on the Internet, although secure, are not free from security breaches. We may experience security breaches in connection with our Internet banking service in the future, which may result in liability to our customers and third parties and materially and adversely affect our business.

We may experience disruptions, delays and other difficulties from our information technology systems.

We rely on our information technology systems for our daily operations including billing, effecting online and offline banking transactions and record keeping. We may experience disruptions, delays or other difficulties from our information technology systems, which may have an adverse effect on our business and adversely impact our customers confidence in us.

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We do not prepare interim financial information on a U.S. GAAP basis.

Neither we nor our subsidiaries are required to, and we and our subsidiaries do not, prepare interim financial information on a U.S. GAAP basis. U.S. GAAP differs in significant respects from Korean GAAP, particularly with respect to the establishment of provisions and loan loss allowance. See Item 5B. Liquidity and Capital Resources Selected Financial Information under Korean GAAP and Reconciliation with Korean GAAP. As a result, our provision and allowance levels reflected under Korean GAAP in our results as of the end of and for 1999, 2000, 2001, 2002 and 2003 may differ significantly from comparable figures under U.S. GAAP for these and future periods.

Risks relating to liquidity and capital management

An increase in interest rates would decrease the value of our debt securities portfolio and raise our funding costs while reducing loan demand and the repayment ability of our borrowers, which could adversely affect us.

Interest rates in Korea have fluctuated significantly in recent years. In 2000 and 2001, interest rates declined to historically low levels as the government sought to stimulate economic growth through active rate-lowering measures. Interest rates stabilized at these low levels in 2002 and 2003. As of December 31, 2003, approximately 87.9% of the debt securities we held paid interest at a fixed rate. All else being equal, an increase in interest rates would lead to a decline in the value of the debt securities in our portfolio. A sustained increase in interest rates will also raise our funding costs, while reducing loan demand, especially among consumers. Rising interest rates may therefore require us to re-balance our assets and liabilities in order to minimize the risk of potential mismatches and maintain our profitability. In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of our corporate and retail borrowers, including holders of our credit cards, which in turn may lead to a deterioration in our credit portfolio. In particular, since most of our retail and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rate levels will increase the interest costs of our retail and corporate borrowers and will adversely affect their ability to make payments on their outstanding loans.

Our funding is highly dependent on short-term deposits, which dependence may adversely affect our operations.

We meet a significant amount of our funding requirements through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2003, approximately 91.1% of our deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of our customer deposits have been rolled over upon maturity. We cannot guarantee, however, that depositors will continue to roll over their deposits in the future. In particular, we estimate that, setting aside the effects of the merger, the recent increase in our short-term deposits is attributable in large part to the lack of alternative investment opportunities for individuals and households in Korea, especially in light of the current low interest rate environment and volatile stock market conditions. Accordingly, a substantial number of our short-term deposit customers may withdraw their funds or fail to roll over their deposits if higher-yield investment opportunities emerge. In that event, our liquidity position could be adversely affected. We may also be required to seek more expensive sources of short-term and long-term funding to finance our operations.

We may be required to raise additional capital to maintain our capital adequacy ratios, which we may not be able to do on favorable terms or at all.

Pursuant to the capital adequacy requirements of the Financial Supervisory Commission, we are required to maintain a minimum Tier I capital adequacy ratio of 4.0% and a combined Tier I and Tier II capital adequacy ratio of 8.0%, on a consolidated Korean GAAP basis. Tier II capital is included in calculating the combined Tier I and Tier II capital adequacy ratio up to 100% of Tier I capital. As of December 31, 2003, our Tier I capital adequacy ratio was 6.22% and our combined Tier I and Tier II capital adequacy ratio was 10.00%, which

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exceeded the minimum levels required by both the Financial Supervisory Commission. However, our capital base and capital adequacy ratio may deteriorate in the future if our results of operations or financial condition deteriorates for any reason, including as a result of continued deterioration in the asset quality of our retail loans (including credit card balances) and loans to small- and medium-sized enterprises, or if we are not able to deploy our funding into suitably low-risk assets.

If our capital adequacy ratio deteriorates, we may be required to obtain additional Tier I or Tier II capital in order to remain in compliance with the applicable capital adequacy requirements. We may not be able to obtain additional capital on favorable terms, or at all. Our ability to obtain additional capital at any time may be constrained to the extent that banks or other financial institutions in Korea or from other Asian countries are seeking to raise capital at the same time. To the extent that we fail to maintain our capital adequacy ratios in the future, Korean regulatory authorities may impose penalties on us ranging from a warning to suspension or revocation of our license. For a description of the capital adequacy requirements of the Financial Supervisory Commission, see Item 5A. Operating Results Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Capital Adequacy.

Under the new Basel Capital Accord, which is scheduled to take effect after December 2006, credit exposures to small- and medium-sized enterprises with no external ratings will be allocated a risk weighting of 150% instead of the current 100%. This would increase our capital requirements for small- and medium-sized enterprise lending unless we are able to obtain approval for our internal rating models from the Financial Supervisory Service. Although we expect to continue our efforts to improve the accuracy of our internal rating models, we may not be able to obtain the Financial Supervisory Service s approval with respect to such models. If such approval is not obtained, we may have to increase our capital to support our small- and medium-sized enterprise lending.

Risks relating to government regulation and policy

Government regulation of retail lending, particularly mortgage and home equity lending, has recently become more stringent, which may hurt our retail banking operations.

In light of concerns regarding the potential risks of excessive retail lending, particularly mortgage and home equity lending, the Korean government has recently adopted more stringent regulations with respect to retail lending by Korean banks. The Financial Supervisory Commission increased the minimum loan loss reserve requirements applicable to retail loans with effect from May 2002. In addition, in an effort to curtail the growth in property speculation caused by increased levels of mortgage and home equity lending, the Financial Supervisory Commission and Financial Supervisory Service adopted measures during the second half of 2002 that reduced our ability to provide certain higher-risk mortgage and home equity loans.

Furthermore, in November 2002, the Financial Supervisory Commission and Financial Supervisory Service announced new, more stringent guidelines applicable to mortgage and home equity lending by Korean banks. More recently, in October 2003, the government advised Korean banks to limit their loans to a maximum of 40% of the value of the underlying real estate collateral, in the case of mortgage and home equity lending in areas where the average real estate price had increased substantially. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Recent Regulations Relating to Retail Household Loans. In addition, the Korean government announced the implementation of measures to stabilize the real estate market in October 2003, which include:

- building more residential apartments and houses;

enforcing more stringent supervision of property speculation; and

increasing the tax burden of those taxpayers who own real estate in excess of prescribed amounts.

The Korean government has expressed a continuing commitment to stabilize the real estate market and willingness to implement additional measures, as necessary.

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These regulations and measures, as well as any similar regulations that the Korean government may adopt in the future, may have the effect of constraining the growth and profitability of our retail banking operations, especially in the area of mortgage and home equity lending. Furthermore, these regulations and measures may result in substantial future declines in real estate prices in Korea, which will reduce the value of the collateral securing our mortgage and home equity lending. See Other risks relating to our business A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio.

Government regulation of our credit card operations has increased significantly.

Due to the rapid increase in consumer debt in Korea in recent years, the Korean government has adopted regulations designed to restrain the rate of growth in cash advances, credit card loans and credit card usage generally, and has instituted enforcement proceedings, including proceedings in the past against Kookmin Credit Card, the effect of which has been, and may in the future be, to constrain our credit card operations. In March 2002, the Financial Supervisory Commission of Korea imposed sanctions, ranging from warnings and administrative fines to partial business suspensions, on substantially all Korean credit card issuers as a result of alleged unlawful or unfair practices discovered during its industry-wide inspection. In connection with these sanctions, Kookmin Credit Card was warned against, and fined (Won)50 million for, issuing cards to non-qualified minors and, in a number of instances, for issuing cards to applicants who unlawfully used another person s name in their credit card applications. In April 2002, the Korea Fair Trade Commission ordered four domestic-brand credit card companies to pay administrative fines in the aggregate amount of (Won)23.4 billion in connection with certain collusion and anti-competitive practices in fixing commission fees and credit card interest rates for cash advances, installment purchases and overdue accounts. Kookmin Credit Card was fined (Won)6.96 billion for anti-competitive behavior.

In addition, from mid-2002 through early 2003, the Korean government enacted a number of changes to the laws governing the credit card industry. In particular, the Financial Supervisory Commission and the Financial Supervisory Service have increased minimum required provisioning levels applicable to credit card receivables, required the reduction in lending volumes for certain types of lending, increased reserve requirements and minimum capital ratios and allowed the imposition of new sanctions against credit card companies that failed to meet applicable requirements. The Financial Supervisory Commission and the Financial Supervisory Service also adopted a number of changes to the rules governing the evaluation and reporting of credit card balances, as well as the procedures governing which persons may receive credit cards.

In light of the deteriorating liquidity position of a number of credit card companies in Korea, in March, September and October 2003 the Korean government announced several measures intended to support the credit card industry. These included the relaxation or delay in the implementation of some of the new regulatory restrictions applicable to credit card companies, such as restrictions on cash advance fee rates, and on the level of cash advance and card loan receivables as a percentage of total receivables. However, we believe that these relief measures are likely to be temporary, and that the overall effect of the Korean government s recent regulatory initiatives has been, and may continue to be, to constrain the growth and profitability of our credit card operations. Since October 2003, the Financial Supervisory Commission announced that it would:

- revise the calculation formula for capital adequacy ratios for each credit card company in a manner that would increase the proportion of managed assets composing risk-weighted assets;
- change its standards for reporting credit card delinquency ratios to require the inclusion of restructured loans and substituted cash advances in the calculation of such ratios; and
- assign to each credit card company a target delinquency ratio that it is required to satisfy on a semi-annual basis until the end of 2006 and require each credit card company to enter into a memorandum of understanding with the Financial Supervisory Commission by the end of November 2003 with respect to each credit card company s action plan to meet its assigned target delinquency ratio.

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Currently, the Financial Supervisory Commission has not implemented any of these announced changes. If the announced changes are adopted, the delinquency ratio reported by credit card companies will increase significantly, which may heighten public concern regarding their financial health and thereby exacerbate their liquidity problems. The Korean government may also adopt further regulatory changes in the future that affect the credit card industry, which in turn may adversely affect our credit card operations.

For more details regarding these enacted and proposed changes, see Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Credit Card Business.

The Korean government has designated additional managers to the National Housing Fund and is contemplating other changes, which may cause our fee income from managing the National Housing Fund to be reduced.

The National Housing Fund is a government fund that provides housing loans to low-income households and construction loans to fund projects to build small-sized housing. From 1981 until 2001, H&CB solely managed the operations of the National Housing Fund and received a monthly management fee. We have received that fee since the merger with H&CB took place. In 2003, we received total management fees of (Won)175 billion.

In January 2000, the relevant law that had specified H&CB as the institution that manages the National Housing Fund was amended to provide that the Ministry of Construction and Transportation is to designate the institution that will perform this function. In November 2002, the ministry designated two other financial institutions as managers, together with us, of the National Housing Fund with a view to diversifying its management. In February 2003, the ministry changed the basis of calculating fees related to the National Housing Fund. If the ministry decides to lower existing management fees or to designate additional institutions to manage the National Housing Fund, our fee income from managing it will be reduced compared to current levels, which in turn may have a further adverse effect on our results of operations.

Furthermore, the Ministry of Construction and Transportation has also strengthened existing regulations to provide for liability of managers of the National Housing Fund, where they have clear responsibility for non-performing National Housing Fund loans or where losses result due to their negligent management. As a result, we may in the future be required to reimburse the National Housing Fund for its losses, including those that relate to the deterioration of the credit quality of its loans, to the extent such losses are deemed to have resulted from our negligence in managing the fund.

The Korean government from time to time provides policy loans, which we may choose to accept, and may announce policies involving the participation of financial institutions, including us, in providing financial support for particular sectors.

The Korean government has in the past provided and may continue to provide policy loans, which encourage lending to particular types of borrowers. It has generally done this by identifying sectors of the economy it wishes to promote and making low-interest funding available to financial institutions that may voluntarily choose to lend to these sectors. The government has in this manner provided policy loans intended to promote low-income mortgage lending and lending to small- and medium-sized enterprises. All loans or credits we choose to make pursuant to these policy loans would be subject to review in accordance with our credit approval procedures. However, the availability of policy loans may influence us to lend to certain sectors or in a manner in which we otherwise would not in the absence of such loans from the government.

In the past, the Korean government has also announced policies under which financial institutions in Korea may voluntarily choose to provide financial support to particular sectors, including remedial programs for troubled corporate borrowers. For example, in light of the financial market instability in Korea resulting from the liquidity problems faced by credit card companies during the first quarter of 2003, the Korean government

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announced temporary measures in April 2003 intended to provide liquidity support to credit card companies. These measures included, among other things:

- a request by the government for credit card companies to effect capital increases in the aggregate amount of (Won)4.6 trillion, as part of their self-rescue efforts;
- banks and other financial institutions agreeing with each other to extend the maturity of all debt securities of credit card companies that they hold;
- investment trust companies agreeing with each other to extend the maturity of 50% of the aggregate amount of the debt securities of credit card companies that they hold which are scheduled to mature by June 2003; and
- with respect to the remaining 50% of such credit card company debt securities, banks and other financial institutions agreeing with each other to contribute an aggregate amount of (Won)5.6 trillion to purchase such debt securities from investment trust companies.

Pursuant to the above measures, we also agreed to extend the maturities of the (Won)110 billion of credit card company debt securities that we held in April 2003 or that have become due in June 2003, by up to the original length of the maturities of those debt securities, which could be up to three years.

Of the (Won)5.6 trillion aggregate contribution made by Korean financial institutions to purchase credit card company debt securities held by investment trust companies, the portion allocated for us to purchase was approximately (Won)1.26 trillion. Accordingly, in April 2003, we purchased an aggregate of (Won)714 billion of debt securities of Kookmin Credit Card and Samsung Credit Card held by investment trust companies, and we contributed the remaining (Won)549 billion to a mutual fund established by Korean financial institutions to purchase credit card company debt securities held by investment trust companies. We expect to be reimbursed for the (Won)1.26 trillion that we used to purchase debt securities, either directly or through the mutual fund described above, pursuant to a schedule agreed upon by us and other Korean financial institutions. We were reimbursed for the full amount of our contribution by the end of July 2003.

The Korean government may in the future request financial institutions in Korea, including us, to make investments in or provide other forms of financial support to particular sectors of the Korean economy as a matter of policy, which financial institutions, including us, may decide to accept. We may incur costs or losses as a result of providing such financial support.

Risks relating to Korea

Tensions with North Korea could have an adverse effect on us and the price of our ADSs.

Relations between Korea and North Korea have been tense over most of Korea s history. The level of tension between Korea and North Korea has fluctuated and may increase or change abruptly as a result of current and future events, including ongoing contacts at the highest levels of the governments of Korea and North Korea and increasing hostility between North Korea and the United States. In December 2002, North Korea removed the seals and surveillance equipment from its Yongbyon nuclear power plant and evicted inspectors from the United Nations International Atomic Energy Agency, and has reportedly resumed activity at its Yongbyon power plant. In January 2003, North Korea announced its intention to withdraw from the Nuclear Non-Proliferation Treaty, demanding that the United States sign a non-aggression pact as a condition to North Korea dismantling its nuclear program. In August 2003, representatives of Korea, the United States, North Korea, China, Japan and Russia held multilateral talks in an effort to resolve issues relating to North Korea s nuclear weapons program. While the talks concluded without resolution, participants in the August meeting indicated that further negotiations may take place in the future and, in February 2004, six party talks resumed in China. Any further increase in tensions, resulting for example from a break-down in contacts or an outbreak in military hostilities, could hurt our business, results of operations and financial condition and the price of our common stock and ADSs.

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Adverse economic and financial developments in Korea may have an adverse effect on us.

We are incorporated in Korea, and substantially all of our operations are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. Beginning in late 1997, Korea experienced a significant financial and economic downturn, from which it is widely believed that the country has recovered to a large extent. The downturn resulted in, among other things, an increase in the number and size of companies filing for corporate reorganization and protection from their creditors. As a result of these corporate failures, commercial banks in Korea, including the former Kookmin Bank and H&CB, experienced a sharp increase in non-performing loans and a deterioration in their capital adequacy ratios.

Although the Korean economy began to experience a recovery in 1999, the pace of the recovery has since slowed and has been volatile. The economic indicators in 2001, 2002 and 2003 have shown mixed signs of recovery and uncertainty, and future recovery or growth of the economy is subject to many factors beyond our control. Events related to terrorist attacks in the United States that took place on September 11, 2001, recent developments in the Middle East, including the war in Iraq and its aftermath, higher oil prices and the continued weakness of the economy in parts of the world have increased the uncertainty of world economic prospects in general and continue to have an adverse effect on the Korean economy. Any future deterioration of the Korean economy would adversely affect our financial condition and results of operations.

Developments that could hurt Korea s economy in the future include:

- financial problems relating to chaebols, or their suppliers, and their potential adverse impact on Korea s financial sector, including as a result of recent investigations relating to unlawful political contributions by chaebols;
- failure of restructuring of large troubled companies, including LG Card and other troubled credit card companies and financial institutions;
- volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including depreciation of the U.S. dollar or Japanese yen), interest rates and stock markets;
- increased reliance on exports to service foreign currency debts, which could cause friction with Korea s trading partners;
- adverse developments in the economies of countries such as the United States, China and Japan to which Korea exports, or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;
- social and labor unrest or declining consumer confidence or spending resulting from lay-offs, increasing unemployment and lower levels of income;
- a decrease in tax revenues and a substantial increase in the Korean government s expenditures for unemployment compensation and other social programs that, together, lead to an increased government budget deficit;
- political uncertainty or increasing strife among or within political parties in Korea; and

a deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy.

Ongoing significant reforms and changes to the regulatory framework for the Korean financial industry could adversely affect our results of operations.

The legal and regulatory framework for the Korean financial industry is undergoing significant reforms and changes. For example, in the past the Korean government regulated, among other things, lending rates and deposit rates for banks. Regulations also dictated the extent of competition by restricting new entrants and the growth of existing financial institutions, including the opening of new branches. Ongoing regulatory reforms have removed all controls on lending rates and deposit rates (except for the prohibition on interest payments on

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current account deposits) and have relaxed barriers to entry, including by foreign financial institutions, leading to increased competition. At the same time, the Korean government has revised its regulations in recent years to impose stricter regulatory standards and oversight on Korean financial institutions, as part of its efforts to modernize the industry and to address specific social and economic issues. Most recently, the Korean government has revised the regulations relating to credit cards and household lending as part of its effort to control the potential risks of excessive consumer lending. Continuing regulatory changes in the financial industry will require us to modify our business operations and may adversely affect our results of operations.

Labor unrest in Korea may adversely affect our operations.

The economic downturn in Korea in 1997 and 1998 and the increase in the number of corporate reorganizations and bankruptcies thereafter caused layoffs and increasing unemployment in Korea, and a similar economic downturn in the future could lead to further layoffs. These factors could lead to social unrest and substantially increase government expenditures for unemployment compensation and other costs for social programs. During 1998 and 1999, there were large-scale protests and labor strikes in Korea. According to statistics from the Bank of Korea, the unemployment rate generally decreased from 4.1% as of December 31, 2000 to 3.1% as of December 31, 2002, but increased to 3.40% as of December 31, 2003. A continued increase in unemployment and continuing or future labor unrest could adversely affect our operations, as well as the operations of many of our customers and their ability to repay their loans, and could adversely affect the financial conditions of Korean companies in general, depressing the price of securities on the Korea Stock Exchange and the value of the Won relative to other currencies. These developments would likely have an adverse effect on our financial condition and results of operations.

Financial instability in other countries, particularly emerging market countries in Asia, could adversely impact our business and cause the price of the ADSs to go down.

The Korean market and the Korean economy are influenced by economic and market conditions in other countries, particularly emerging market countries in Asia, including China. Financial turmoil in Asia, Russia and elsewhere in the world in recent years has adversely affected the Korean economy. Although economic conditions are different in each country, investors reactions to developments in one country can have adverse effects on the securities of companies in other countries, including Korea. A loss of investor confidence in the financial systems of emerging and other markets may cause increased volatility in Korean financial markets. Furthermore, in December 2003, we invested (Won)71 billion for a 25% interest in Sorak Financial Holdings, which acquired a 51% interest in Bank Internasional Indonesia, and we may make similar investments outside Korea in the future. We cannot be certain that financial events of the type that occurred in emerging markets in Asia in 1997 and 1998 will not happen again in Asia or in other markets in which we may invest, or that such events will not have an adverse effect on our business or the price of our common stock and ADSs.

Risks relating to our common stock and ADSs

Ownership of our common stock is restricted under Korean law.

Under Korean law, a single stockholder, together with its affiliates, is generally prohibited from owning more than 10.0% of the outstanding shares of voting stock of a nationwide bank such as us, with the exception of certain stockholders that are non-financial group companies, whose applicable limit is 4.0%. The Korean government, the Korea Deposit Insurance Corporation and bank holding companies are exempt from this limit, and investors may also exceed the 10.0% limit upon filing a report with, or approval by, the Financial Supervisory Commission. See Item 4B. Supervision and Regulation Principal Regulations Applicable to Banks Restrictions and Bank Ownership. To the extent that the total number of shares of our common stock (including those represented by ADSs) that a holder and its affiliates own together exceeds that limit, that holder will not be entitled to exercise the voting rights for the excess shares, and the Financial Supervisory Commission may order that holder to dispose of the excess shares within a period of up to six months. Failure to comply with such an order would result in an administrative fine of up to (Won)50 million and/or up to 0.03% of the book value of such shares per day until the date of disposal.

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A holder of our ADSs may not be able to exercise dissent and appraisal rights unless it has withdrawn the underlying shares of our common stock and become our direct stockholder.

In some limited circumstances, including the transfer of the whole or any significant part of our business and the merger or consolidation of us with another company, dissenting stockholders have the right to require us to purchase their shares under Korean law. However, holders of our ADSs will not be able to exercise such dissent and appraisal rights if the depositary refuses to do so on their behalf. Our deposit agreement does not require the depositary to take any action in respect of exercising dissent and appraisal rights. In such a situation, holders of our ADSs must withdraw the underlying common stock from the ADS facility (and incur charges relating to that withdrawal) and become our direct stockholder prior to the record date of the stockholders meeting at which the relevant transaction is to be approved, in order to exercise dissent and appraisal rights.

A holder of our ADSs may be limited in its ability to deposit or withdraw common stock.

Under the terms of our deposit agreement, holders of common stock may deposit such stock with the depositary s custodian in Korea and obtain ADSs, and holders of ADSs may surrender ADSs to the depositary and receive common stock. However, to the extent that a deposit of common stock exceeds the difference between:

(1) the aggregate number of common shares we have deposited or we have consented to allow to be deposited for the issuance of ADSs (including deposits in connection with offerings of ADSs and stock dividends or other distributions relating to ADSs); and

(2) the number of shares of common stock on deposit with the custodian for the benefit of the depositary at the time of such proposed deposit,

such common stock will not be accepted for deposit unless

(A) our consent with respect to such deposit has been obtained; or

(B) such consent is no longer required under Korean laws and regulations.

Under the terms of the deposit agreement, no consent is required if the shares of common stock are obtained through a dividend, free distribution, rights offering or reclassification of such stock. We have consented, under the terms of the deposit agreement, to any deposit to the extent that, after the deposit, the number of deposited shares does not exceed 115,840,996 shares or any other number of shares we determine from time to time, unless the deposit would be prohibited by applicable laws or violate our articles of incorporation. We might not consent to the deposit of any additional common stock. As a result, if a holder surrenders ADSs and withdraws common stock, it may not be able to deposit the stock again to obtain ADSs.

A holder of our ADSs will not have preemptive rights in some circumstances.

The Korean Commercial Code of 1962, as amended, and our articles of incorporation require us, with some exceptions, to offer stockholders the right to subscribe for new shares of our common stock in proportion to their existing shareholding ratio whenever new shares are issued. If we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the depositary, after consultation with us, may make the rights available to holders of our ADSs or use reasonable efforts to dispose of the rights on behalf of such holders and make the net proceeds available to such holders. The depositary, however, is not required to make available to holders any rights to purchase any additional shares of our common stock unless it deems that doing so is lawful and feasible and:

- a registration statement filed by us under the U.S. Securities Act of 1933, as amended, is in effect with respect to those shares; or
- the offering and sale of those shares is exempt from or is not subject to the registration requirements of the Securities Act.

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Similarly, holders of our common stock located in the United States may not exercise any such rights they receive absent registration or an exemption from the registration requirements under the Securities Act.

We are under no obligation to file any registration statement with the U.S. Securities and Exchange Commission or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, a holder of our ADSs may be unable to participate in our rights offerings and may experience dilution in its holdings. If a registration statement is required for a holder of our ADSs to exercise preemptive rights but is not filed by us or is not declared effective, the holder will not be able to exercise its preemptive rights for additional ADSs and it will suffer dilution of its equity interest in us. If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or feasible, it will allow the rights to lapse, in which case the holder will receive no value for these rights.

Dividend payments and the amount a holder of our ADSs may realize upon a sale of its ADSs will be affected by fluctuations in the exchange rate between the U.S. dollar and the Won.

Our common stock is listed on the Korea Stock Exchange and quoted and traded in Won. Cash dividends, if any, in respect of the shares represented by the ADSs will be paid to the depositary in Won and then converted by the depositary into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Won and the U.S. dollar will affect, among other things, the amounts a holder of our ADSs will receive from the depositary in respect of dividends, the U.S. dollar value of the proceeds that it would receive upon sale in Korea of the shares of our common stock obtained upon surrender of ADSs and the secondary market price of ADSs. Such fluctuations will also affect the U.S. dollar value of dividends and sales proceeds received by holders of our common stock.

The market value of an investment in our ADSs may fluctuate due to the volatility of the Korean securities market.

Our common stock is listed on the Korea Stock Exchange, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the Korea Stock Exchange. The Korea Stock Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the Korea Stock Exchange has prescribed a fixed range in which share prices are permitted to move on a daily basis. In the past decade, the Korea Composite Stock Price Index, known as the KOSPI, reached a peak of 1138.75 in 1994 and subsequently fell to a low of 280.00 in 1998. On April 17, 2000, the KOSPI experienced a 93.17 point drop, which represented the single largest decrease in the history of the KOSPI. On June 24, 2004, the KOSPI closed at 763.13. Like other securities markets, including those in developed markets, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

The Korean government has the potential ability to exert substantial influence over many aspects of the private sector business community, and in the past has exerted that influence from time to time. For example, the Korean government has promoted mergers to reduce what it considers excess capacity in a particular industry and has also encouraged private companies to publicly offer their securities. Similar actions in the future could have the effect of depressing or boosting the Korean securities market, whether or not intended to do so. Accordingly, actions by the government, or the perception that such actions are taking place, may take place or has ceased, may cause sudden movements in the market prices of the securities of Korean companies in the future, which may affect the market price and liquidity of our common stock and ADSs.

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If the Korean government deems that emergency circumstances are likely to occur, it may restrict holders of our ADSs and the depositary from converting and remitting dividends and other amounts in U.S. dollars.

If the Korean government deems that certain emergency circumstances, including, but not limited to, severe and sudden changes in domestic or overseas economic circumstances, extreme difficulty in stabilizing the balance of payments or implementing currency, exchange rate and other macroeconomic policies, have occurred or are likely to occur, it may impose certain restrictions provided for under the Foreign Exchange Transaction Law, including the suspension of payments or requiring prior approval from governmental authorities for any transaction. See Item 9C. Markets.

Other Risks

A holder of our ADSs may not be able to enforce a judgment of a foreign court against us.

We are a corporation with limited liability organized under the laws of Korea. Substantially all of our directors and officers and other persons named in this document reside in Korea, and all or a significant portion of the assets of our directors and officers and other persons named in this document and substantially all of our assets are located in Korea. As a result, it may not be possible for holders of our ADSs to effect service of process within the United States, or to enforce against them or us in the United States judgments obtained in United States courts based on the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.

Item 4. INFORMATION ON THE COMPANY

Item 4A. *History and Development of the Company*

History of the former Kookmin Bank

The former Kookmin Bank was established by the Korean government in 1963 under its original name of Citizens National Bank under the Citizens National Bank Act of Korea with majority government ownership. Under this Act, we were limited to providing banking services to the general public and to small-and medium-sized enterprises. (See Item 4B. Business Overview Corporate Banking Small- and Medium-Sized Enterprise Banking for an exact definition of small-and medium-sized enterprises.) In September 1994, we completed our initial public offering in Korea and listed our shares on the Korea Stock Exchange. As of December 31, 2002, the government s shareholding in us had decreased to 9.33% of our outstanding common shares.

In January 1995, the Citizens National Bank Act of Korea was repealed and replaced by the Repeal Act of the Citizens National Bank Act. Our status was changed from a specialized bank to a nationwide commercial bank and in February 1995, we changed our name to Kookmin Bank. The Repeal Act allowed us to engage in lending to large businesses. Following the repeal, however, under our articles of incorporation at that time, only up to 20% of our total Won-currency loans outstanding was allowed to be made to large businesses. Currently, under our articles of incorporation, financial services to individuals and small-and medium-sized enterprises (including mortgage lending) are required to be equal to or more than 60% of the total amount of our loans denominated in Won.

In June 1998, we acquired certain assets, including loans the majority of which were considered performing as of the purchase date, and assumed most of the liabilities of DaeDong Bank, pursuant to a directive from the Financial Supervisory Commission in connection with a government program to support the deteriorating financial sector in Korea. We assumed 519 out of 1,740 employees and 49 out of 108 branches of DaeDong Bank. As of the date of the acquisition, there was a net shortfall of (Won)1,687 billion between the value of the assets we acquired and the value of the liabilities we assumed. We received cash and debt securities issued by the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation in connection with the acquisition.

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In December 1998, we merged with the Korea Long Term Credit Bank, which focused on providing large corporate banking services. Through this acquisition, we were able to selectively expand our large corporate business, while continuing to concentrate on the retail sector. This expansion resulted in increased product and service offerings, including wholesale deposits, corporate overdraft facilities, bills and receivables discounting, export/import financing, payment remittances, foreign exchange transactions, standby letters of credit and guarantees and acceptances.

In June 1999, Goldman Sachs Capital Koryo, L.P., a fund managed by The Goldman Sachs Group, Inc., acquired (through its wholly owned subsidiaries Goldman Sachs Capital Chosun, Ltd. and Goldman Sachs Capital Shilla, Ltd.) an interest in the former Kookmin Bank in return for an investment of US$500 million in new common shares and convertible bonds, consisting of (Won)360 billion of new common shares (17,768,870 common shares at (Won)20,260 per share, as adjusted for the merger ratio of 1.688346:1) and US$200 million principal amount of subordinated convertible bonds with an original conversion price of (Won)14,200 per common share. As a result of subsequent sales of our common stock (including common stock obtained upon conversion of the convertible bonds) by Goldman Sachs Capital Koryo in June 2002 and November 2003, Goldman Sachs Koryo beneficially owned 1.14% of our outstanding common stock as of December 31, 2003. See Item 7B. Related Party Transactions.

History of H&CB

H&CB was established by the Korean government in 1967 under the name Korea Housing Finance Corporation. In 1969, Korea Housing Finance Corporation became the Korea Housing Bank pursuant to the Korea Housing Bank Act. H&CB was originally established to provide low and middle income households with long-term, low-interest mortgages in order to help them purchase their own homes, and to promote the increase of housing supply in Korea by providing low-interest housing loans to construction companies. Under the Korea Housing Bank Act, up to 20% of H&CB s lending (excluding lending pursuant to government programs) could be non-mortgage lending. Until 1997 when the Korea Housing Bank Act was repealed, H&CB was the only entity in Korea allowed to provide mortgage loans with a term of longer than ten years. H&CB also had the exclusive ability to offer housing-related deposit accounts offering preferential rights to subscribe for newly-built apartments.

In June 1998, H&CB acquired certain assets, including loans the majority of which were considered performing as of the purchase date, and assumed most of the liabilities of DongNam Bank, pursuant to a directive from the Financial Supervisory Commission in connection with a government program to support the deteriorating financial sector in Korea. H&CB assumed 650 out of 1,661 employees and 49 out of 116 branches of DongNam Bank. As of the date of the DongNam Bank acquisition, there was a net shortfall of (Won)1,453 billion between the value of the assets it acquired and the value of the liabilities it assumed. As in the case of the former Kookmin Bank, H&CB received cash and debt securities issued by the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation in connection with the acquisition. The acquisition of DongNam Bank strengthened H&CB s business presence in the southeastern region of Korea where DongNam Bank was based.

In July 1999, H&CB entered into an investment agreement with certain affiliates of the ING Groep N.V., a leading global financial services group. Through ING Insurance International B.V. and ING International Financial Holdings, ING Groep N.V. invested (Won)332 billion to acquire 9,914,777 new common shares of H&CB representing 9.99999% of H&CB s outstanding common shares. As of December 31, 2003, ING Groep N.V. beneficially owned 3.78% of our outstanding common stock.

In December 2002, we formally extended our strategic alliance agreement with ING Bank N.V., replacing its prior investment agreement with H&CB. In August, 2003, our board approved and ratified an amended and restated strategic alliance agreement with ING Groep N.V. As a result:

the exclusive alliance with respect to our bancassurance business was revised to a non-exclusive, commercial relationship-based alliance;

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ING Groep N.V. is required to maintain its current 3.78% beneficial ownership of shares of our common stock; and

each party agreed to maintain its level of investment in ING Life Insurance Company, Korea Ltd. (which is currently 20% owned by us and 80% owned by ING Insurance International B.V.) and KB Asset Management Co., Ltd. (which is currently 80% owned by us and 20% by ING Insurance International B.V.) until August 29, 2006.

For more details regarding our relationship with ING Groep N.V., see Item 4B. Business Overview Other Businesses Bancassurance, Item 7B. Related Party Transactions and Item 10C. Material Contracts.

The Merger of the former Kookmin Bank and H&CB

In November 2000, the former Kookmin Bank and H&CB entered into discussions regarding a possible merger. On December 22, 2000, the two banks entered into a memorandum of understanding regarding the merger. The proposed merger was publicly announced in Korea on that date. On April 23, 2001, the two banks executed a merger agreement approved by their respective boards of directors. The merger was structured as a merger of the two banks into a new entity in order to ensure that the transaction was properly understood by the security holders and customers of the two banks, as well as their employees, as a merger of equals rather than an absorption by one bank of the other. Under U.S. GAAP, however, the former Kookmin Bank was deemed the accounting acquiror of H&CB in the merger. We accounted for the acquisition using the purchase method of accounting.

On September 29, 2001, the merger proposal was approved by the stockholders of both banks at extraordinary general meetings called for that purpose. The merger became effective on November 1, 2001. This merger resulted in Kookmin Bank becoming the largest commercial bank in Korea. Our ADSs were listed on the New York Stock Exchange on November 1, 2001 and our common shares were listed on the Korea Stock Exchange on November 9, 2001. As of October 31, 2001, H&CB s total assets were (Won)67,399 billion, its total deposits were (Won)51,456 billion, its total liabilities were (Won)64,537 billion and it had stockholders equity of (Won)2,849 billion. As required by U.S. GAAP, we recognized H&CB s total assets and liabilities at their estimated fair values of (Won)68,347 billion and (Won)64,858 billion, respectively. These amounts reflect the recognition of (Won)544 billion of negative goodwill, which was allocated to the fixed assets, core deposit intangible assets and credit card relationship intangible assets assumed. See Note 3 to our consolidated financial statements.

At the time of the merger, we issued 179,775,233 shares of our common stock to holders of former Kookmin Bank shares and 119,922,229 shares of our common stock to holders of former H&CB shares. The merger ratio was such that holders of former Kookmin Bank common stock received one of our shares for every 1.688346 shares of former Kookmin Bank they owned, and holders of H&CB common stock received one of our shares for every share of H&CB common stock they owned.

A key goal of the merger between the former Kookmin Bank and H&CB was to combine the strengths of each bank to create a premier world-class financial institution. In furtherance of this goal, we have integrated the operations of the two predecessor banks in order to build a solid base for future growth

The Merger with Kookmin Credit Card

On May 30, 2003, we entered into a merger agreement with Kookmin Credit Card, previously a 75% owned and consolidated subsidiary. On July 23, 2003, our board approved the merger with Kookmin Credit Card and, on September 5, 2003, the merger was approved by the shareholders of Kookmin Credit Card. On September 30, 2003, we merged with Kookmin Credit Card.

The merger was effected by the issuance of 8,120,431 shares of our common stock, and the former minority shareholders of Kookmin Credit Card received .442983 shares of our common stock for every one share of

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Kookmin Credit Card common stock that they owned and cash instead of fractional shares that they would have otherwise been entitled to receive in the merger. Immediately following the merger, former shareholders of Kookmin Credit Card common stock, other than us, owned approximately 2.4% of our outstanding common stock. The acquisition of minority interest was accounted for under the purchase method of accounting, and we stepped up the assets and liabilities acquired to their fair values at the date of acquisition. The excess of fair value of purchase consideration over the fair value of net assets acquired was recognized as goodwill.

The goals of this merger were to:

- alleviate the difficulties that Kookmin Credit Card was experiencing with respect to its liquidity and capital adequacy;
- maximize management efficiency and further enhance our credit card business;
- assist us in developing a leading credit card business in Korea;
- enable us to effectively cross-sell our financial products by integrating our database; and
- develop and launch products and services that integrated our credit card and banking businesses.

Through establishing a unified credit card business, we believe that we can further enhance this business by strengthening our risk management and maximizing our operational efficiency. We believe this merger will enable us to strengthen our competitiveness in the credit card business by enabling us to flexibly respond to the dynamics of the changing market environment, efficiently allocate our resources and reduce costs.

Item 4B. ***Business Overview***

Business

We are the largest commercial bank in Korea. As of December 31, 2003, we had total assets of (Won)183,979 billion and total deposits of (Won)131,604 billion. On the asset side, we provide credit and related financial services to individuals and small- and medium-sized enterprises and, to a lesser extent, to large corporate customers. On the deposit side, we provide a full range of deposit products and related services to both individuals and enterprises of all sizes.

By their nature, our core consumer and small- and medium-sized enterprise operations place a high premium on customer access and convenience. Our combined network of 1,136 branches as of December 31, 2003, the most extensive in Korea, provides a solid foundation for our business and is a major source of our competitive strength. This network provides us with a large, stable and cost effective funding source, enables us to provide our customers convenient access and gives us the ability to provide the customer attention and service essential to conducting our business, particularly in an increasingly competitive environment. Our branch network is further enhanced by automated banking machines and fixed-line, mobile telephone and Internet banking. As of December 31, 2003, we had a customer base of over 24 million retail customers, which represented approximately one-half of the Korean population. Of the population in Korea between the ages of 20 and 40, approximately two-thirds have accounts with us. As of December 31, 2003, we also had over 154,000 small- and medium-sized enterprise customers.

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The following table sets forth the principal components of our lending business as of the dates indicated. As of December 31, 2003 retail loans, credit card loans and credit card receivables accounted for 66.2% of our total loan portfolio.

	As of December 31,					
	2001		2002		2003	
	(in billions of Won, except percentages)					
Retail						
Mortgage and home equity (1)	(Won) 37,194	30.8%	(Won) 46,195	31.7%	(Won) 52,477	36.0%
Other consumer (2)	23,312	19.3	28,066	19.2	28,727	19.7
Total retail	60,506	50.1	74,261	50.9	81,204	55.7
Credit card	16,751	13.9	22,643	15.5	15,322	10.5
Corporate	42,491	35.1	47,502	32.6	47,899	32.8
Capital markets activities and international banking	1,146	0.9	1,426	1.0	1,433	1.0
Total loans	(Won) 120,894	100.0%	(Won) 145,832	100.0%	(Won) 145,858	100.0%

(1) Includes (Won)1,619 billion, (Won)1,160 billion and (Won)1,162 billion of overdraft loans secured by real estate in connection with home equity loans as of December 31, 2001, 2002 and 2003, respectively.

(2) Includes (Won)5,612 billion, (Won)9,211 billion and (Won)10,038 billion of overdraft loans as of December 31, 2001, 2002 and 2003, respectively.

We provide a full range of personal lending products and retail banking services to individual customers, including mortgage loans. We are the largest private sector mortgage lender in Korea and our mortgage loan portfolio in terms of aggregate loan value accounted for a 75.8% share of the domestic commercial banking market as of December 31, 2003. We are also a manager of the National Housing Fund, a government fund that provides housing loans to low income households and loans to construction companies to build small-sized housing for low income households.

Lending to small- and medium-sized enterprises is the single largest component of our non-retail credit portfolio and represents a widely diversified exposure to a broad spectrum of the Korean corporate community, both by type of lending and type of customer, with one of the newest categories being collateralized loans to SOHO customers that are among the smallest of the small- and medium-sized enterprises.

The volume of our loans to small- and medium-sized enterprises requires a customer-oriented approach that is facilitated by our large and geographically diverse branch network. Our lending to this segment increased substantially during 2003.

In keeping with industry trends, our credit exposure to large corporate customers is declining as a percentage of our total loan portfolio although we continue to maintain and to seek quality relationships and to expand them by providing these customers with an increasing range of fee-related services.

Since the former Kookmin Bank initiated the issuance of domestic credit cards in 1980, we have seen our credit card business grow rapidly, particularly in 2001 and 2002 as the nationwide trend towards credit card use accelerated. As of December 31, 2003, we had more than 11.1 million holders of Kookmin Card, and there were more than 3.9 million holders of our BC Card. Some of our cardholders hold both our BC Card and our Kookmin Card. Our credit card balances (including card loans) have increased from (Won)8,321 billion as of December 31, 2000 to (Won)15,322 billion as of December 31, 2003, as a result of both the merger with H&CB and significant organic growth. The rate of increase in balances relating to our credit card business declined significantly during 2003 and our loan loss provisioning increased substantially as a result of increases in delinquency rates, which have continued during the first quarter of 2004. See Item 3D. Risk Factors Risks relating to our retail credit portfolio and Item 4A. History and Development of the Company The Merger with Kookmin Credit Card.

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Our legal and commercial name is Kookmin Bank. Our registered office and principal executive offices are located at 9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul, Korea 100-703. Our telephone number is 822-2073-8341. Our agent in the United States, Kookmin Bank, New York Branch, is located at 565 Fifth Avenue, 24th Floor, New York, NY 10017. Its telephone number is (212) 697-6100.

Strategy

Our key strategic focus is to be the leading bank in Korea and a world-class personal financial service provider. We plan to continue to develop our business on the basis of our core strengths in mortgage financing and retail banking. We intend to take advantage of our enhanced market position following the merger and by improving our existing operations, product range and capabilities. We believe our strong market position is an important competitive advantage, which will enable us to compete more effectively based on convenient delivery, product breadth and differentiation, and service quality while focusing on our profitability.

The key elements of our strategy are as follows:

Enhance our leading market position and leverage our core businesses

Our main goal is to enhance our leading market position in our core businesses retail banking (which includes mortgage financing), credit cards and small- and medium-sized enterprise banking. We believe our leading market position allows us to better compete for our core customers and also provides significant new cross-selling opportunities. We intend to accomplish our objective through the following initiatives:

Leveraging existing retail customer relationships. We will focus on fulfilling a greater share of our retail customers banking needs. Our goal is to ensure that as many of our retail customers as possible borrow from us (for example, to finance housing, to purchase a car or for other household expenses), use our credit cards, deposit their money with us and use our investment and wealth management services. Examples of our initiatives include developing cooperative arrangements with large construction companies for the provision of mortgage financing, developing new credit card-linked products and enhancing affiliations between our credit card operations and other service providers.

Enhancing customer satisfaction with improved service quality and broader product offerings. We believe we can improve customer retention and usage rates by increasing the range of products and services we offer and by developing a differentiated, multi-channel distribution network, including branches, ATMs, call centers, mobile-banking and Internet banking. We believe that our leading market position gives us a competitive advantage in developing and enhancing our distribution capabilities. In addition, our large customer base allows us to target particular products to our different customer segments.

Attracting new retail customers with tailored products and our broad product range. Our leading market position also provides opportunities to attract new customers. For example, we are currently focusing on providing fee-based products, customized mortgage products and electronic banking promotions, and further enhancing our private banking services for high net worth individuals. We have also opened new branches specializing in banking services to high net worth individuals.

Leveraging small- and medium-sized enterprise customer relationships. We had a network of over 154,000 small- and medium-sized enterprise customers as of December 31, 2003. We intend to leverage these relationships by expanding the range of lending, deposit and money management products we offer to the customers. This will allow us to effectively increase the types and amounts of products and services we offer to small- and medium-sized enterprises as they expand their businesses.

Focus on expanding and improving credit quality in our small- and medium-sized enterprise lending

Our small- and medium-sized enterprise banking business has traditionally been and will remain one of our core businesses. In order to achieve our goal of enhancing our profitability, especially in light of the recent slowdown in retail and credit card lending volume, we have identified the small- and medium-sized enterprise customer segment, including SOHO customers, as one of our sources for growth. Lending to these customers generally carries higher rates of interest. In addition, we believe that, as the economy recovers, the SOHO customer base will expand significantly and provide us with an increasing opportunity to enhance our profitability. To increase our lending to the small- and medium-sized enterprise market, we have:

- positioned ourselves based on our accumulated expertise. Based on our experience, we believe we have a better understanding of the credit risks embedded in this market, and we also have an on-line database that allows us to analyze information regarding potential customers. Our relationship management teams regularly visit the corporate customers in their region;

- analyzed approximately 50,000 small- and medium-sized enterprises in Korea on the basis of their financial condition and other circumstances using our credit rating system and identified approximately 11,000 small- and medium-sized enterprises as priority target customers. Our marketing efforts are directed toward establishing a relationship with these potential small-and medium-sized enterprise customers;

- been operating a relationship management system to provide targeted customer service to small- and medium-sized enterprises. As of December 31, 2003, we had 120 corporate banking branches and 18 relationship management teams located at various other retail branches. The corporate banking branches and relationship management teams market our products and review and approve smaller loans that pose less credit risks; and

- been focusing on cross-selling our loan products with other products. For example, when we lend to construction companies building apartment houses, we also market our subscription account products to the future owners of the apartments. Similarly, when we provide loans to companies, we also explore opportunities to cross-sell retail loans or deposit products to the employees of those companies.

Focus on personal financial services

The Korean market for personal financial services, such as consumer lending and investment management, is large and rapidly expanding, but still relatively under-penetrated. This market is highly competitive, however, with a number of banks and financial institutions competing for the same customers. We believe that this market has significant growth potential in light of the high savings rates and the relatively high per capita income in Korea. We intend to capitalize on the opportunities in the personal financial services market in Korea by:

- focusing on consumer lending products, which provide higher margins than corporate loans;

- focusing on the credit card business, with a specific focus on retaining existing loyal and profitable cardholders and more selectively issuing credit cards to qualified customers, to increase both interest and fee income;

- identifying and segmenting customers to focus on higher margin businesses and offering differentiated products to these customers through specialized channels, such as personal financial services centers; and

- enhancing our investment and wealth management offerings by a combination of product and service improvements and expanded offerings of new in-house and third-party products.

Develop corporate businesses that generate fee income

We intend to maintain our focus as a bank for retail and small- and medium-sized enterprise customers, while also providing a wide range of services to our important corporate customers. As part of this plan, we intend to increase the volume and the proportion of our fee income from non-lending corporate businesses such as project financing, investment banking, financial advisory services, derivatives transactions, asset management, asset securitization and real estate investment trust management, while selectively re-organizing our corporate lending portfolio. We believe that we can succeed in providing an expanded scope of products and services to quality corporate customers by retraining and instituting responsibility for cross-selling with our relationship managers.

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Strengthen and enhance our deposit gathering capability by offering a broad range of deposit products and related services

As of December 31, 2003, we had the largest number of retail customers and retail deposits among Korean commercial banks. We believe that this is due to our extensive nationwide network of branches, which is the largest among Korean commercial banks, and the merger with H&CB, together with our long history of development and our resulting know-how and expertise. We plan to strengthen and enhance our deposit gathering capability by:

- offering a broad range of deposit products, with varying interest rates depending upon average funding costs and the rate of return on our interest earning assets; and
- continuing to develop and expand our priority customer program that categorizes our customers by their average deposit balance for the most recent three-month period, their contribution to our revenue and the amount of their transactions with us. By extending preferential treatment to our priority customers, we believe we can strengthen our customer loyalty.

Strengthen internal risk management capabilities

One of our highest priorities is to improve our asset quality and more effectively price our lending products to take into account inherent credit risk in our portfolio. Our goal is to retain the strength of our credit portfolio, profitability and capital base. To this end, we intend to continue to strengthen our internal risk management capabilities by tightening our underwriting and management policies and improving our internal compliance policies. To accomplish this objective, we have undertaken the following initiatives:

- *Strengthening underwriting procedures with advanced credit scoring techniques.* We are in the process of implementing enhanced credit analysis and scoring techniques, which we believe will enable us to make better-informed decisions about the credit we extend and improve our ability to respond more quickly to incipient credit problems. We are also focusing on enhancing our credit quality early monitoring systems and collection procedures.
- Improving *our internal compliance policy and ensuring strict application in our daily operations.* We are in the process of improving our monitoring capabilities with respect to our internal compliance and providing training and educational programs to our management and employees.

Branch Network

As of December 31, 2003, we had 1,136 branches and sub-branches in Korea, which were the largest number of branches among Korean commercial banks. In Korea, retail transactions are generally conducted in cash, although credit card use is increasing, and conventional checking accounts are not offered or used as widely as in other countries. An extensive branch network is important to attracting and maintaining retail customers, who use branches extensively and value convenience. We believe that our extensive branch network in Korea and retail customer base provide us with a source of stable and relatively low cost funding. Approximately 42% of our branches and sub- branches are located in Seoul, and more than 24% of our branches are located in the six next largest cities. The following table presents the geographical distribution of our branch network in Korea as of December 31, 2003.

Area	Number of branches	Percentage
Seoul	476	42%
Six largest cities (other than Seoul)	273	24
Other	387	34
Total	1,136	100%

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In addition, we have continued to implement the specialization of branch functions. As of December 31, 2003, we had established over 15 additional branches that exclusively handle corporate transactions, by converting certain existing branches, with a focus on converting overlapping branches resulting from the merger between the former Kookmin Bank and H&CB, and constructing certain new branches. Of our branch network, 120 branches handle corporate transactions exclusively and are dedicated to providing comprehensive services to our corporate customers.

In order to support our branch network, we have established an extensive network of automated banking machines, which are located in branches and in unmanned outlets known as Autobanks. These automated banking machines consist of ATMs, cash dispensers and passbook printers. As of December 31, 2003, we had 8,037 ATMs, 1,253 cash dispensers and 645 passbook printers.

We have actively promoted the use of these distribution outlets in order to provide convenient service to customers, as well as to maximize the marketing and sales functions at the branch level, reduce employee costs and improve profitability. We believe that use of our automated banking machines has increased in recent years. In 2003, automated banking machine transactions accounted for approximately 79.3% of our deposit and withdrawal transactions for amounts less than (Won)700,000.

The following table sets forth information, for the periods indicated, regarding the number of transactions and the fee revenue of our ATMs, including those that only dispense cash.

	For the year ended December 31,			
	2001		2002	2003
	Kookmin Bank	H&CB (1)	Kookmin Bank	Kookmin Bank
Number of transactions (millions)	302	271	816	828
Fee revenue (in billions of Won)	(Won) 36	(Won) 23	(Won) 81	(Won) 89

(1) The first 10 months of 2001 included in the figures for 2001 reflect historical information of H&CB prior to the merger.

Retail Banking

Due to our development as a retail bank and the know-how and expertise we have acquired from our activities in that market, retail banking has been and will continue to remain one of our core businesses. Our retail banking activities consist primarily of lending and deposit-taking.

Lending Activities

We offer various loan products that target different segments of the population, with features tailored to each segment s financial profile and other characteristics. The following table sets forth the balances and the percentage of our total lending represented by our retail loans as of the dates indicated.

	As of December 31,					
	2001		2002		2003	
	(in billions of Won, except percentages)					
Retail:						
Mortgage and home equity loans	(Won) 37,194	30.8%	(Won) 46,195	31.7%	(Won) 52,477	36.0%
Other consumer loans (1)	23,312	19.3	28,066	19.2	28,727	19.7
Total	(Won) 60,506	50.1%	(Won) 74,261	50.9%	(Won) 81,204	55.7%

(1) Excludes credit card loans, but includes overdraft loans.

As of December 31, 2003, mortgage and home equity loans and other consumer loans accounted for 64.6% and 35.4%, respectively, of our retail loans. These retail loans consist of:

- *Mortgage loans,* which are loans made to customers to finance home purchases, construction, improvements or rentals; and *home equity loans,* which are loans made to our customers secured by their homes to ensure loan repayment. We also provide overdraft loans in connection with our home equity loans.

- *Other consumer loans,* which are loans made to customers for any purpose (other than mortgage and home equity loans). These include overdraft loans, which are loans extended to customers to cover insufficient funds when they withdraw funds from their demand deposit accounts with us in excess of the amount in such accounts up to a limit established by us.

For secured loans, including mortgage and home equity loans, our policy is to lend up to 100% of the adjusted collateral value (except in areas of high speculation designated by the government where we are required to limit our lending to 40% of the appraised value of collateral) *minus* the value of any lien or other security interest that is prior to our security interest. In calculating the adjusted collateral value for real estate, we use the appraisal value of the collateral multiplied by a factor, generally between 40% to 60%. This factor varies depending upon the location and use of the real estate and is established in part by taking into account court-supervised auction prices for nearby properties.

A borrower s eligibility for our mortgage loans depends on value of the mortgage property, the appropriateness of the use of proceeds and the borrower s creditworthiness. A borrower s eligibility for home equity loans is determined by the borrower s credit and the value of the property, while the borrower s eligibility for other consumer loans is primarily determined by the borrower s credit. If the borrower s credit deteriorates, it may be difficult for us to recover the loan. As a result, we review the borrower s creditworthiness, collateral value, credit scoring and third party guarantees when evaluating a borrower. In addition, to reduce the interest rate of a loan or to qualify for a loan, a borrower may provide collateral, deposits or guarantees from third parties.

Due to a rapid increase in retail loans and increased credit risks relating thereto, as well as to stabilize the real estate market in Korea, the Financial Supervisory Commission and the Financial Supervisory Service have been adopting more stringent guidelines applicable to mortgage and home equity lending by Korean banks since 2002. See Item 3D. Risk Factors Risks relating to government regulation and policy and Supervision and Regulation Principal Regulations Applicable to Banks Credit Card Business.

Mortgage and Home Equity Lending

Our mortgage and home equity lending has substantially expanded in recent years. The following table provides certain information regarding our mortgage and home equity loans.

	As of December 31,		
	2001 (1)	**2002**	**2003**
	Kookmin Bank	**Kookmin Bank**	**Kookmin Bank**

	(in billions of Won, except percentages)		
Mortgage and home equity lending	(Won) 37,194	(Won) 46,195	(Won) 52,477
Mortgage and home equity lending as a percentage of total loans	30.8%	31.7%	36.0%

(1) Data reflect the impact of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001.

As of December 31, 2003, our market share of the outstanding Korean private mortgage market was 34.4% based on our internal statistics. We do not receive any fee income related to the origination of mortgage and home equity loans.

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The Housing Finance Market in Korea. The housing finance market in Korea is divided into public sector and private sector lending. In the public sector, two government entities, the National Housing Fund and the National Agricultural Cooperative Federation, are responsible for most of the mortgage lending. In the private sector, a number of financial institutions and installment finance companies, including us, provide mortgage lending. Prior to 1997, government regulations limited the types of mortgage lending products commercial banks in Korea could offer. These restrictions affected both the terms of mortgages that could be offered as well as eligibility of properties to be mortgaged and persons applying for mortgages. Government restrictions on mortgage lending were largely lifted in 1997, leading to a more competitive mortgage lending market. In 1998, the government promulgated new laws to facilitate asset securitization transactions by Korean banks. We believe that the demand for these transactions will increase, which should contribute to the growth of the mortgage lending market by increasing the amount of funding available to lenders and allowing lenders to manage their credit risk.

Mortgage and Home Equity Loan Products. We provide customers with a number of mortgage and home equity loan products that have flexible features, including terms, repayment schedules, amounts and eligibility for loans, and we offer interest rates on a commercial basis. The maximum term of mortgage loans is 35 years. Home equity loans have an initial maturity of three years. These loans are typically renewed upon maturity on an annual basis for a maximum of ten years, after which these loans must be repaid. Approximately 70% of our mortgage and home equity loans have an initial maturity of one to three years. Consumers of mortgage and home equity loans prefer loans with a maturity of one to three years because these loans generally have lower interest rates than longer-term loans. Any customer is eligible for a mortgage or an individual home equity loan regardless of whether it participates in one of our housing related savings programs and so long as that customer is not barred by regulation from obtaining a loan because of bad credit history. However, customers with whom we frequently transact business and provide us with significant revenue receive preferential interest rates on loans.

As of December 31, 2003, approximately 40.5% of our mortgage loans were secured by residential property which is the subject of the loan, 20.0% of our mortgage loans were guaranteed by the Housing Finance Credit Guarantee Fund, a government housing-related entity, and the remaining 39.5% of our mortgage loans, contrary to general practices in the United States, were unsecured (although the use of proceeds from these loans are restricted for the purpose of financing home purchases and some of these loans were guaranteed by a third party). One reason that a relatively high percentage of our mortgage loans are unsecured is that we, along with other Korean banks, provide advance loans to borrowers for the down payment of new housing (particularly apartments) that is in the process of being built. Once construction is completed, which may take several years, these mortgage loans become secured by the new housing purchased by these borrowers. For the year ended December 31, 2003, the average initial loan-to-value ratio of our mortgage loans, which is a measure of the amount of loan exposure to the appraised value of the security collateralizing the loan, was approximately 64.6%. There are three reasons that our loan-to-value ratio is relatively lower (as is the case with other Korean banks) compared to similar ratios in other countries, such as the United States. The first reason is that housing prices are high in Korea relative to average income, so most people cannot afford to borrow an amount equal to the entire value of their collateral and make interest payments on such an amount. The second reason relates to the jeonsae system, through which people provide a key money deposit while residing in the property prior to its purchase. At the time of purchase, most people use the key money deposit as part of their payment and borrow the remaining amount from Korean banks, which results in a loan that will be for an amount smaller than the appraised value of the property for collateral and assessment purposes. The third reason is that Korean banks discount the appraised value of the borrower s property for collateral and assessment purposes so that a portion of the appraised value is reserved in order to provide recourse to a renter who lives at the borrower s property. This is in the event that the borrower s property is seized by a creditor, and the renter is no longer able to reside at that property. See Item 3D. Risk Factors Other risks relating to our business A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio. As a result of government initiatives, we have also tightened our mortgage loan guidelines.

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Pricing. The interest rates on our retail mortgage loans are generally based on a periodic floating rate (which is based on a base rate determined for three-month, six-month or twelve-month periods derived using our Market Opportunity Rate system, which reflects our internal cost of funding, further adjusted to account for our expenses related to lending). Our interest rates also incorporate a margin based among other things on the type of security, priority with respect to the security, loan-to-value and loan length. We can adjust the price to reflect the borrower s current and/or expected future contribution to us. The applicable interest rate is determined at the time of the loan. If a loan is terminated prior to its maturity, the borrower is obligated to pay us an early termination fee of approximately 1% to 1.5% of the loan amount in addition to the accrued interest.

The interest rates on our home equity loans are determined on the same basis as our retail mortgage loans.

As of December 31, 2003, our current three-month, six-month and twelve-month base rates were approximately 5.94%,6.16% and 6.40%, respectively.

As of December 31, 2003, approximately (Won)51,197 billion, or 97.6%, of our outstanding mortgage and home equity loans were priced based on a floating rate and (Won)1,280 billion, or 2.4%, were priced based on a fixed rate.

Other Consumer Loans

Other consumer loans are primarily unsecured. However, such loans may be secured by real estate, deposits or securities. As of December 31, 2003, approximately (Won)15,391 billion, or 54% of our consumer loans (other than mortgage and home equity loans) were unsecured loans (although some of these loans were guaranteed by a third party). Overdraft loans are also classified as other consumer loans, are primarily unsecured and typically have a maturity between one and three years. The amount of overdraft loans have been increasing over the past several years and, as of December 31, 2003, was approximately (Won)10,038 billion.

Pricing. The interest rates on our other consumer loans are determined on the same basis as on our home equity loans, except that, for unsecured loans, the borrower s credit score as determined during our loan approval process is also taken into account. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management. For overdraft loans, we also add 50 basis points in determining the interest rate.

As of December 31, 2003, approximately 93.0% of our other consumer loans had interest rates that were not fixed but were variable in reference to our base rate, which is based on the Market Opportunity Rate.

Deposit-Taking Activities

Due to our extensive nationwide network of branches and the merger, together with our long history of development and our resulting know-how and expertise, as of December 31, 2003, we had the largest number of retail customers and retail deposits among Korean commercial banks. The balance of our deposits from retail customers was (Won)83,129 billion, (Won)92,126 billion and (Won)99,172 billion as of

December 31, 2001, 2002 and 2003, respectively, which constituted 72.3%, 75.3% and 75.4%, respectively, of the balance of our total deposits.

We offer many deposit products that target different segments of our retail customer base, with features tailored to each segment s financial profile, characteristics and needs, including:

Demand deposits, which either do not accrue interest or accrue interest at a lower rate than time or savings deposits. Demand deposits allow the customer to deposit and withdraw funds at any time and, if they are interest bearing, accrue interest at a variable rate depending on the amount of deposit. Retail and corporate demand deposits constituted approximately 3.2% of our total deposits as of December 31, 2003 and paid average interest of 0.3% for 2003.

Time deposits, which generally require the customer to maintain a deposit for a fixed term, during which the deposit accrues interest at a fixed rate or a variable rate based on the Korea Composite Stock Prices

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Index (known as KOSPI), or to deposit specified amounts on an installment basis. If the amount of the deposit is withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered. The term for time deposits typically range from one month to five years, and the term for installment savings deposits range from six months to ten years. Retail and corporate time deposits constituted approximately 52.2% of our total deposits as of December 31, 2003 and paid average interest of 4.4% for 2003. Most installment savings deposits offer fixed interest rates.

Savings deposits, which allow depositors to deposit and withdraw money at any time and accrue interest at an adjustable interest rate, which is currently below 0.5%. Retail and corporate savings deposits constituted approximately 30.2% of our total deposits as of December 31, 2003 and paid average interest of 0.9% for 2003.

Certificates of deposit, the maturities of which range from 30 days to 365 days with a required minimum deposit of (Won)5 million. Interest rates on certificates of deposit are determined based on the length of the deposit and prevailing market rates. Our certificates of deposit are sold at a discount to their face value, reflecting the interest payable on the certificate of deposit.

Foreign currency deposits, which accrue interest at an adjustable rate and are available to Korean residents, non-residents and overseas immigrants. We offer foreign currency demand and time deposits and checking and passbook accounts in nine currencies.

We offer varying interest rates on our deposit products depending upon average funding costs, the rate of return on our interest earning assets and the interest rates offered by other commercial banks.

We also offer deposits that provide the holder with preferential rights to housing subscriptions and eligibility for mortgage loans. These products include:

Housing subscription time deposits, which are special purpose time deposit accounts providing the holder with a preferential right to subscribe for new private apartment units under the Housing Law. This law is the basic law setting forth various measures supporting the purchase of houses and the supply of such houses by construction companies. These products accrue interest at a fixed rate for one year, and at an adjustable rate after one year. Deposit amounts per account range from (Won)2 million to (Won)15 million depending on the size and location of the dwelling unit. These deposit products target high and middle income households.

Housing subscription installment savings deposits, which are monthly installment savings programs providing the holder with a preferential subscription right for new private apartment units under the Housing Law. Account holders are also eligible for our mortgage loans. These deposits require monthly installments of (Won)50,000 to (Won)500,000, have maturities of between two and five years and accrue interest at fixed or variable rates depending on the term. These deposit products target low- and middle-income households.

We have a priority customer program that categorizes our customers by their average deposit balance for the most recent three-month period, their contribution to our revenue, and the amount of their transactions with us. A customer may receive preferential treatment in various areas, including interest rates and transaction fees, depending upon how the customer is classified. As of December 31, 2003, we had over 3.7 million priority customers, representing about 15% of our total retail customer base of over 24 million retail customers. In 2003, on an average balance basis, our priority customers held approximately 83% of our total retail customer deposits, and revenues from our priority customers accounted for approximately 54% of our revenues derived from our retail customers.

In the second quarter of 2002, after significant research and planning, we launched private banking operations at our headquarters. Shortly thereafter, we launched a comprehensive strategy with respect to customers with higher net worth, which included staffing appropriate representatives, marketing aggressively, establishing IT systems, selecting appropriate branch locations and readying such branches with the necessary

facilities to service such customers. As of December 31, 2003, we had established eight centers and plan to gradually increase the number of private banking centers in our branch network. We believe that by offering high quality personal wealth management services to these customers we can increase our share of the priority customer market, which will increase our profitability and our position in the retail banking market.

The Monetary Policy Committee of the Bank of Korea (the Monetary Policy Committee) imposes a reserve requirement on Won currency deposits of commercial banks based generally on the type of deposit instrument. The reserve requirement is currently up to 5%. See Supervision and Regulation Principal Regulations Applicable to Banks Liquidity. Ongoing regulatory reforms have removed all controls on lending rates and deposit rates (except for the prohibition on interest payments on current account deposits).

The Depositor Protection Act provides for a deposit insurance system where the Korea Deposit Insurance Corporation guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of (Won)50 million per depositor per bank. See Supervision and Regulation Principal Regulations Applicable to Banks Deposit Insurance System. We pay a premium rate of 0.1% of our average deposits and we paid (Won)115 billion for 2003.

Credit Cards

Credit cards are another of our core retail products. As a result of the merger with H&CB and our subsequent merger with our subsidiary, Kookmin Credit Card, we currently issue two brands of credit cards and operate both cards directly:

- Kookmin Card; and
- BC Card.

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The following table sets forth certain data relating to our credit card operations and those of H&CB as of the dates or for the period indicated. All financial figures appearing below have been prepared in accordance with Korean GAAP, which differs significantly from U.S. GAAP. See Item 5B. Liquidity and Capital Resources Reconciliation with Korean GAAP.

	As of and for the year ended December 31,					
	2001		2002		2003	
	(in billions of Won, except number of holders and accounts and percentages)					
	Kookmin Card	BC Card (1)	Kookmin Card	BC Card	Kookmin Card	BC Card
Number of credit card holders (at year end) (thousands)						
General accounts	10,491	4,018	12,614	4,748	10,991	3,899
Corporate accounts	96	24	154	58	148	53
Total	10,587	4,042	12,768	4,806	11,139	3,952
Number of merchants (at year end) (thousands)	1,675	263	1,569	312	1,528	310
Active ratio (at year end) (2)	71%	65%	72%	61%	53.6%	50.1%
Credit card fees						
Merchant fees (3)	(Won) 546	(Won) 187				